

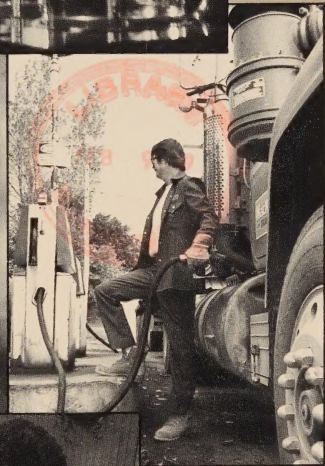
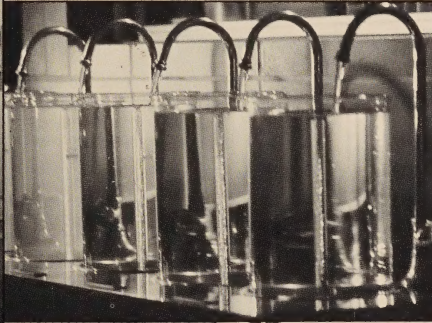
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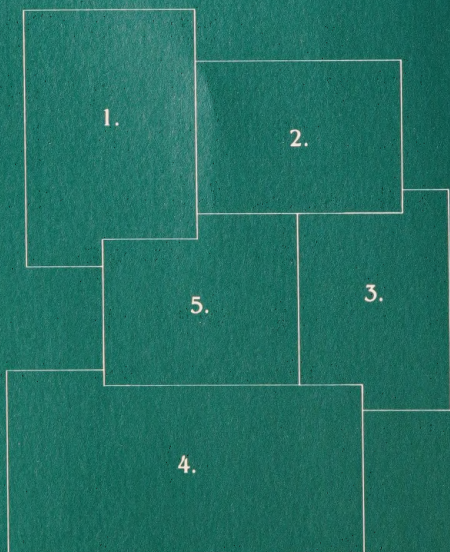
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OFFICE OF THE PROVINCIAL AUDITOR

# 1988 ANNUAL REPORT





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1. Ministry of Health
2. Ministry of the Environment
3. Ministry of Agriculture and Food
4. Ministry of Government Services
5. Ministry of Natural Resources



OFFICE OF THE PROVINCIAL AUDITOR

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THE HONOURABLE  
HUGH EDIGHOFFER, M.P.P.

Speaker of the Assembly  
Province of Ontario

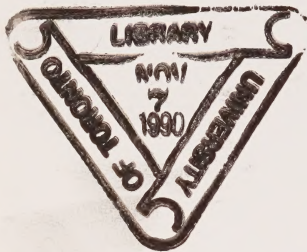
Dear Sir:

I am pleased to transmit my report covering audits completed during the year ended September 30, 1988, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

*D. F. Archer*

D.F. Archer, F.C.A.,  
Provincial Auditor.

Toronto, November 30, 1988.



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## Auditor's Report for 1988

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## CHAPTER 1

### SIGNIFICANT AUDIT OBSERVATIONS

#### 1.1

##### Basis of Reporting

The contents of this Report are pursuant to section 12(2) of the Audit Act. A major provision of the legislation requires that the Auditor bring to the attention of the Legislative Assembly instances where he has observed significant deficiencies in government administration.

In order to better assist the Assembly in its role of holding the government accountable, we endeavour to go beyond this basic requirement. In most audits we attempt to assess how well a particular government function is being administered, and to support that assessment with relevant comments and observations. Generally, therefore, observed matters are reported in the context of a conclusion on the overall quality of administration for the specific area subject to audit.

The Report does contain some observations which are not made in the context of a broad audit conclusion or assessment. These primarily relate to our Crown agency audit activities where the focus of the audit is on the expression of an opinion on the agency's financial statements. The reader is cautioned against drawing unwarranted conclusions from such observed matters. These observed matters are simply that. It would be incorrect, for example, for the reader to conclude that other similar transactions were handled in a like manner.

There is a general view that our Reports unduly emphasize deficiencies without giving credit for the many situations where no significant irregularities were observed. To a large extent this result is unavoidable given the reporting requirements of the Audit Act. However, we have attempted to moderate this general perception by also drawing attention to some of the positive aspects of government administration noted in the course of audit.

It should also be noted that some comments in the Report are purely informational in content, and are included because, in our view, the matters should be brought to the attention of the Assembly.

#### 1.2

##### Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1988 totalled \$32.5 billion and \$34.9 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of government operations precludes an all-inclusive audit on an annual basis. Accordingly, the Office audits a selection of programs and systems each year, so that over a four to five year period all major operations are reviewed.

Additionally, the Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

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## Significant Audit Observations

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### 1.3

#### Overall Assessment

It is difficult to establish measurable criteria against which the overall administrative performance of government can be assessed. Consequently, we do not have the necessary audit evidence on which to base such an assessment. Nevertheless, we are not without some conviction in the matter.

We believe that professional training and years of experience enable us to recognize good management and to understand good management practices. We also believe that through our long audit association with government, we have a good understanding of the nature of government and its operating environment. Based on these factors, it is our opinion that the Government of Ontario is being satisfactorily administered overall.

While there will always be instances of weaknesses and deficiencies in operations of the scope and size of the Ontario Government, it is our view that these are the exception rather than the rule, and that on balance, administration of public funds continues to improve.

We are pleased to report that we received all the information and explanations required. We would like to acknowledge and thank all those from whom we received assistance.

---

### 1.4

#### Report Highlights

##### Increasing Inspection Audits

In Ontario, transfer payments represent over 70 per cent of provincial expenditures. In keeping with the trend towards greater government accountability, in recent years this Office has expanded inspection audit activity to specifically address the major recipients of transfer payments.

Beginning in 1984, in response to concerns expressed by the Public Accounts Committee, the Office undertook a special review of community colleges. One college was inspected each year for three successive years, the results of which were summarized in our 1984, 1985, and 1986 Annual Reports.

In 1987, this Office extended inspection audit activity to the university community with our examination of Trent University (Section 2.6 of this Report). We are planning to conduct inspection audits of two more universities and to extend our audit coverage to other major recipients of transfer payments such as hospitals.

---

##### Government Advertising and Communications

We audited advertising and communications expenditures across five ministries and one Secretariat. Relevant expenditures exceeded \$30 million in 1988.

In general, we concluded that advertising goods and services were acquired with insufficient regard for economy. In particular, we noted a widespread disregard

## Report Highlights

for administrative documentation that would justify the reasonableness of the costs incurred, and numerous instances of excessive costs and questionable expenditures. We also concluded that adequate systems to evaluate the results of advertising projects were generally lacking. (Section 2.4)

### Better Administrative Practices Required

A number of audits disclosed instances of poor administration and management. In several cases, the cost implications were significant.

- The Institutional Health Program of the Ministry of Health is currently providing over \$5 billion per year in operating grants to 223 public hospitals, which represents 85 per cent of the revenue of Ontario hospitals. We concluded that Ministry monitoring procedures inadequately ensured that operating grants to hospitals were well spent.

The Ministry provided \$33 million in deficit funding to 69 hospitals in 1987. Due to the large number of hospitals which had received deficit funding and the failure of either the Ministry or hospitals to satisfactorily account for all causes of the deficits, the Ministry hired several consulting firms to identify factors that had contributed to the deficits. (Section 3.9)

- The Ministry of Community and Social Services' income maintenance activities provide financial assistance to Ontario residents in need, primarily through Family Benefit Allowances and General Welfare Assistance. In 1988, expenditures totalled \$1.9 billion of which \$604 million pertained to General Welfare Assistance.

We reviewed this Assistance activity and concluded that the Ministry's monitoring procedures were inadequate to ensure that legislation and Ministry guidelines were followed by municipalities in delivering the program. Resources were insufficient to conduct regular eligibility reviews of those receiving Assistance. (Section 3.3)

We also reviewed the development and implementation of a major computer project designed to support the administration of income maintenance activities. In our opinion, the Ministry had not exercised proper time and cost controls, resulting in project delays and cost escalation. (Section 3.2)

- In 1987, the Government provided subsidies to the Ontario Northland Transportation Commission of \$24.8 million of which \$18.1 million was for Rail Passenger Services. We reviewed Rail Passenger Services and determined that they could be provided more economically. Opportunities existed for raising additional revenues and decreasing operating costs, thus reducing annual Government subsidies. In addition, we questioned the refurbishing of acquired passenger cars that may sit idle for most of the year. (Section 4.5)

## Significant Audit Observations

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- The Design Activity of the Ministry of Transportation spent \$79 million in 1988, \$19 million of which went to engineering consultants and related services. We observed that better control of resources, particularly in the use of consultants in the design of provincial highway construction projects, would have resulted in cost savings. (Section 3.13)

---

### Improved Services to the Public Needed

Several audits involved elements of program delivery that have a direct effect on the quality of life for segments of society. For example:

- The Computers in Education initiative of the Ministry of Education develops and integrates microcomputers and educational software into the curriculum of Ontario's schools. Expenditures to date for the program total \$131 million, \$48 million of which was spent in 1988.

The Ministry sponsored an "ideal" computer for Ontario's education system. Problems created by the unique and advanced features of this computer have limited the success of the overall initiative. The computer, for example, is incompatible with others in the marketplace and existing educational software is unusable. Software development for the sponsored computer has been less than satisfactory, and inadequate emphasis has been placed on the effective implementation of computers in the classroom. (Section 3.6)

- Water and sewage treatment plants in Ontario are operated either by municipalities or the Ministry of the Environment. We concluded that the Ministry of the Environment had weak monitoring and control procedures to ensure water and sewage were treated in accordance with Ministry requirements. Water and sewage treatment plants were not regularly inspected. Furthermore, there was incomplete information on the quality of both drinking water and water returned to lakes and rivers through the sewage treatment system. For example, there was inadequate information about the effect on the environment of sewage which bypassed treatment plants. (Section 3.7)
- The prevention, detection and control of forest fires are the responsibility of the Ministry of Natural Resources. Relevant expenditures totalled \$79.1 million in 1988. We noted that improved monitoring of the use of staff and aircraft was needed to ensure more efficient utilization of these resources. For example, recurring problems with deployment of fire crews and response times were not being identified and corrected. (Section 3.11)

---

### Positive Developments

#### *Accountability for Transfer Payments*

Transfer payments amounted to \$25.4 billion for the 1988 fiscal year. The need for better accountability regarding transfer payments has long been a concern of this Office. In our 1983 and 1984 Annual Reports, for example, we commented

## Report Highlights

extensively on the subject, with particular reference to a major Government initiative underway at that time.

Unfortunately, subsequent progress was slow to materialize. However, in 1988, Management Board Secretariat revitalized the initiative by preparing a directive on accountability for transfer payments. Cabinet approval of the directive was obtained in May 1988.

The directive and its recently developed, companion guideline require each Ministry to implement an accountability process which sets out the planned objectives and results that the transfer payment recipient is to achieve. The process must also ensure that the recipient reports the achievement of objectives and results on a timely basis, and takes corrective action when objectives and results are not being achieved. Ministry implementation of the accountability processes is expected to commence in April 1989. (Section 2.2)

### *Government Accountability*

Last year we scrutinized the Government's accountability to the Legislature, the cornerstone of which is the Estimates. We stated that, if the Government is to be properly accountable to the Legislature, the Estimates review process must be effective. However, far from being effective, the process is sadly deficient.

Playing a lead role as we suggested, the Public Accounts Committee tabled a Special Report on the Estimates Process in June 1988. The Report incorporated several of the recommendations which we and others had made, including the establishment of a Standing Committee on the Estimates that would conduct an annual, in-depth scrutiny of selected Estimates. Although the Legislature recessed before the recommendations could be addressed, we fully expect they will receive appropriate consideration when the Legislature reconvenes in the fall. (Section 2.3)

### *Good Administrative Practices*

Although our reporting mandate stresses the disclosure of deficiencies, evidence of good administration is often acknowledged. For example:

- Through its Ontario Communications Network, the Ministry of Government Services achieved monthly savings of \$1 million while providing an efficient level of service. (Section 3.8)
- In our audit of the Ministry of Natural Resources' firefighting initiatives, we were impressed with the Ministry's concerted effort to educate and inform the general public and industry about safe practices in forests. (Section 3.11)
- During 1988, the Ministry of Transportation's Municipal Roads Program provided municipalities with subsidies totalling \$628 million. We concluded that the Ministry had adequate controls to ensure that the allocations were equitable and reflective of both the needs and the funding capabilities of municipalities. (Section 3.14)

## Significant Audit Observations

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### 1.5

#### Serving the Public

The Office of the Provincial Auditor can be contacted by any member of the public who has a concern about the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or by writing to :

Office of the Provincial Auditor,  
Box 105, 20 Dundas Street West,  
Toronto, Ontario.  
M5G 2C2

## CHAPTER 2

### COMMENTS ON GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS

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#### 2.1 Introduction

Comments contained in this segment of the Report pertain to audit observations and recommendations resulting from government-wide and special reviews. A list of all reviews completed during the year is included in Exhibit 1.

---

#### 2.2 Accountability for Transfer Payments

##### *INTRODUCTION*

The need for much better accountability in respect of transfer payments has long been a concern of this Office. In our 1983 and 1984 Annual Reports, for example, we commented extensively on the subject, with particular reference to a major government initiative underway at that time. The purpose of this year's report section is to recap and update the status of that initiative.

##### **Significance of Transfer Payments**

Transfer payments amounted to \$25.4 billion or approximately 72.7 per cent of the Province's total expenditure for the 1988 fiscal year. Transfer payments are the largest category of Provincial expenditure and include major recipients such as hospitals, school boards, universities, municipalities and colleges.

Transfer payments which are made directly to, or specifically on behalf of, members of the public amounted to \$6.6 billion or approximately 26.1 per cent of total 1988 transfer payments. For example, income support payments are made directly to individuals, and payments are made to physicians and pharmacists for services provided to the public. The government has complete control over such payments and should have the means readily at its disposal to be fully accountable to the Legislature.

Intermediary organizations or bodies providing services to the public (e.g. hospitals, universities) received \$18.8 billion or approximately 73.9 per cent of total 1988 transfer payments. The government does not have complete control over the use, the safeguarding or the expenditure of the funding. Consequently, the government must seek required information and/or assurances by other means if it is to satisfy its responsibility to the Legislature.

##### **Task Force on the Auditing of Ontario Government Transfer Payment Recipients**

In early 1982, Management Board of Cabinet established a senior level interministerial task force to address the auditing of transfer payment recipients, primarily those intermediary organizations or bodies providing services to the public.

---

##### *RECOMMENDATIONS OF THE TASK FORCE*

Accountability relationships between ministries and their transfer payment recipients are diverse, reflecting differences in program size and type, financing, organizational structure and public accountability. In its 1983 report the Task Force recommended that ministries be required to examine the existing

## Comments on Government-wide Matters and Special Reviews

---

accountability relationships and frameworks for each transfer payment program. The accountability frameworks were to include the setting of objectives and also provide for the comparison of actual results and expectations.

The mutually agreed-upon objectives and expectations were to be established by the ministries in cooperation with the recipients. Also, the objectives were to include the requirement that recipients manage their programs with due regard for economy, efficiency and effectiveness. The accountability frameworks would thus provide the basis for improved accountability and effective auditing.

The Task Force also recommended that the auditing of transfer payment recipients be broadened to include the evaluation of management controls, that is, those concerned with economy, efficiency and effectiveness.

In its 1983 report the Task Force recognized that audit is a process superimposed on an accountability relationship to provide assurance that information is valid and reliable. The Task Force also emphasized the dependence of effective auditing on a clear statement of the objectives which the recipients are accountable for achieving with the funds.

---

### IMPLEMENTATION OF RECOMMENDATIONS

#### Gradual Approach

In February 1984 Cabinet approved a gradual approach to implementing the Task Force's recommendations. This approach provided for a first stage of dialogue and analysis, the results of which would be used in planning for the subsequent stages of implementation.

In April 1984 the Secretary of the Management Board of Cabinet requested that the ministries develop an implementation plan for the first stage and provide a copy to Management Board. Management Board intended to review the implementation plans to identify any apparent issues which could be addressed on a corporate basis. During the 1985 fiscal year ministries submitted their first stage implementation plans and received feedback on accountability mechanisms and implementation approaches that were considered useful for sharing amongst ministries.

The Secretary had also requested the ministries to report to Management Board during the 1986 fiscal year on their first stage results and findings, together with specific proposals for future action. Subsequently, the Management Board Secretariat informed Deputy Ministers that the Secretariat was particularly interested in the outcome of the ministries' reviews of goals and objectives, and any steps which might be taken to improve the accountability process.

Responses took various forms, ranging from detailed multi-page documents, to a few pages, to letters indicating that the ministries, for various reasons, would not be providing a submission.

---

#### Extended Implementation Process

Progress in implementing the Task Force's recommendations was less than anticipated. The Management Board Secretariat recognized that the gradual

## Accountability for Transfer Payments

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approach proposed by Cabinet had not provided the impetus necessary to achieve an early implementation of the recommendations. As well, during this period, the Secretariat was actively involved in a review of the accountability relationship between ministries and the Board and the production of a new manual of directives describing this new relationship. This task was seen as a pre-requisite to the establishing of an accountability framework between ministries and transfer payment agencies.

As a result of renewed efforts during the 1988 fiscal year, the Secretariat developed a draft Directive on accountability for transfer payments which was sent to Deputy Ministers for their review and comments.

The Secretariat submitted a synopsis of the ministries' first stage results and the draft Directive on Transfer Payment Accountability to Cabinet, and obtained approval of the Directive on May 3, 1988.

---

### Directive on Transfer Payment Accountability

The mandatory requirements of the Directive involve an accountability process that must clearly set out the planned objectives and results that the recipient is to achieve, and ensure that the recipient:

- . understands or agrees with these objectives and results;
- . reports the achievement of objectives and results on a timely basis; and
- . takes corrective action when objectives and results are not being achieved.

The application of the mandatory requirements varies with the degree of conditionality of the particular transfer payment involved. Generally the more conditions attached to the payment the greater is the accountability of the recipient to the Province.

The ministries are to ensure that accountability processes that meet the mandatory requirements of the Directive are in place and are maintained. The Management Board Secretariat is responsible for assisting ministries in the development and maintenance of accountability frameworks.

---

### Implementation of the Directive

To assist ministries in the implementation of the Directive, Management Board Secretariat has established a project group to develop a companion Guideline. The draft Guideline will be reviewed and approved by an inter-ministry advisory group, comprised of representatives from the ministries having large transfer payment programs, the Secretariat, the Ontario Public Service Internal Auditors' Council, and the Ministry of Treasury and Economics. The Guideline is scheduled for completion by September 30, 1988.

On release of the Guideline the ministries are to develop accountability frameworks for each transfer payment program and submit them to the Secretariat for review. This process is scheduled for completion by the end of 1988. During the period January to March 1989 the Secretariat is to review the

## Comments on Government-wide Matters and Special Reviews

accountability frameworks submitted by the ministries and evaluate them using the criteria contained in the Guideline. The Secretariat will then submit the frameworks to the Cabinet for their consideration. It is anticipated that ministry implementation of the accountability frameworks will commence in April 1989.

---

### COMMENTARY

The accountability frameworks, once implemented, will provide the basis for assessing the reliability of the information reported and its relevance to the stated objectives. This will help internal auditors of the ministries and external auditors of the transfer payment recipients to determine their respective audit roles.

Through our ongoing audit activities and communication with Management Board Secretariat, this Office will continue to assess progress made in the development, implementation and auditing of accountability frameworks for transfer payments.

---

### 2.3 Legislative Review of the Estimates

The Budget outlines the Government's proposed spending for the year. However, for purposes of legislative scrutiny, additional detail is provided by ministry expenditure Estimates. Expenditure is detailed by program and activity and by accounting classification (e.g. salaries and wages, employee benefits). The Legislature scrutinizes and approves these spending plans of the Government on an annual basis.

In our 1987 Report (section 2.2) we stated that the Estimates process was maligned and ineffective. Our comments were based in part on discussions of the issues related to the Estimates with a number of MPPs from all three parties. The prevalent view expressed was that Estimates in their present form do not provide the Legislature with proper financial accountability.

We reiterated the call for reform of the Estimates process, suggested many times by various legislative committees over the past eight years, and urged the Public Accounts Committee to play a lead role. We also endorsed the recommendation made by successive legislative committees for the establishment of a specialist committee to examine a selected number of Estimates each year. We recommended that the proposed committee coordinate its work with that of the Standing Committee on Public Accounts and the Office of the Provincial Auditor.

---

### ACTION BY THE PUBLIC ACCOUNTS COMMITTEE

The Public Accounts Committee has considered the foregoing recommendations as well as other issues which were raised in our 1987 Report. The Committee tabled a Special Report on the Estimates Process in the House on June 2, 1988. The Special Report recommended:

- the establishment of a Standing Committee on the Estimates to conduct an annual in-depth scrutiny of selected ministry Estimates.

## Legislative Review of the Estimates

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In order to enhance the coordination of the Estimates review with the work of the Public Accounts Committee and thus strengthen the accountability cycle, it was further recommended that three members of the Public Accounts Committee be included in the proposed Estimates Committee. Each political party would be represented and one of the three representatives would chair the new committee.

- the endorsement of the ministry selection process recommended by the Standing Committee on the Legislative Assembly. This Committee had recommended that six sets of Estimates be reviewed in depth each year and that they be chosen in rotation by all three parties. The first ministry to be reviewed would be chosen by the Official Opposition, the second by the Third Party, the third by the Government Party, and the remaining three in the same sequence.
- a procedure be adopted whereby written questions on matters of particular concern would be submitted to ministries not receiving an in-depth review. Under this procedure, the Estimates Committee would review the responses and, at its discretion, call in ministries for further questioning.
- the Estimates Committee establish a schedule for the early completion of the Estimates review.
- the Estimates Committee be given the power to recommend the reallocation of funding within each program.
- the Estimates Committee give high priority to a comprehensive review of the form and content of Estimates information.
- that sufficient research staff be provided to the Estimates Committee and, to further strengthen the accountability cycle, the work of the Estimates Committee research staff be coordinated with the work of the Public Accounts Committee's own staff.

---

### *THE STANDING COMMITTEE ON THE LEGISLATIVE ASSEMBLY*

A Subcommittee on Standing Orders has proposed amendments to the Standing Orders (rules of the House) which include recommendations for changes to the Estimates review process.

The recommendations, presented in a report to the House Leaders in the spring of 1988, are consistent with those of the Public Accounts Committee. The report also referred to a concern with the time available for the Estimates review. To help alleviate this situation it suggested that "the Treasurer should make every effort to present the budget for the next fiscal year early in the Spring Term, preferably before the beginning of a new fiscal year".

## Comments on Government-wide Matters and Special Reviews

### *CURRENT STATUS OF THE COMMITTEES' RECOMMENDATIONS*

The Legislature recessed on June 29, 1988 before the recommendations of the two committees could be addressed. We fully expect that the recommendations will receive appropriate consideration when the Legislature reconvenes in the fall. This expectation is based on the widespread recognition of the ineffectiveness of the Estimates process.

### *RECENT ESTIMATES' REVIEWS*

Estimates review activity for the past three years is summarized in the following table:

|  | 1985/86 | 1986/87 | 1987/88 |
|--|---------|---------|---------|
| Number of Estimates referred to Committees       | 38      | 39      | 41      |
| Number of Estimates reviewed in whole or in part | 22      | 31      | 9       |

Two general elections were held during the three years and no doubt significantly reduced the time available for Estimates review. Nevertheless, given the many duties and responsibilities of members of the Legislature, it is clearly evident that there is not sufficient time on the parliamentary calendar for legislators to effectively scrutinize all of government's proposed expenditures each year.

Some experimentation with a new and more meaningful approach to Estimates is long overdue. The considered recommendations of two Committees of the Legislature, therefore, warrant close attention.

## 2.4

### Observations on Government Advertising and Communications Expenditures

During the year we conducted audits of the management of advertising and communications expenditures at the ministries of Agriculture and Food, Tourism and Recreation, Energy, the Environment, Housing, and at Management Board Secretariat.

Each ministry typically has an advertising agency or agencies to administer the creative and production components of all its advertisements. However, the purchasing of all media space and time in newspapers, radio, television, etc. is coordinated through two agencies called the Government's Agencies of Record.

Total advertising and communications expenditures by these six entities, excluding staff salaries, exceeded \$30 million for the 1988 fiscal year.

### SUMMARY

### SCOPE AND OBJECTIVES

In conducting these audits our objectives included assessments of whether:

- goods and services were acquired with due regard for economy; and

## Government Advertising and Communications Expenditures

- . adequate systems were in place to evaluate the results of advertising projects.

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### CONCLUSIONS AND FINDINGS

#### *DUE REGARD FOR ECONOMY*

Advertising goods and services were acquired with insufficient regard for economy. Many of the expenditures we reviewed did not result in the ministries or the Secretariat receiving value for money. For example:

- . Competitive selection procedures were not followed for sub-contracted goods and services.
- . Estimates and invoices were not supported with adequate detail.
- . Excessive costs were incurred.
- . Questionable expenditures were made.

#### *PROJECT EVALUATION*

Although there was evidence of certain results monitoring we concluded that, generally, adequate systems were lacking to evaluate the results of advertising projects.

- . An energy conservation project was repeated although the results of the first project were not evaluated and the benefits were marginal at best.
- . The wrong sector was likely targeted in a promotional campaign.

#### *OTHER MATTERS*

- . While advertising agencies were competitively selected documentation was inadequate.

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### COMMENTARY

#### *DUE REGARD FOR ECONOMY*

Advertising agency fees are determined in part as a percentage of total production costs. Accordingly, ministry controls are critical since an agency has little incentive to keep costs to a minimum.

The following examples are representative of the various inadequacies we found in management control. In some of the examples the amounts involved may, in themselves, appear somewhat minor. However, these instances represent weaknesses that are commonplace and therefore collectively significant.

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#### **The Conserving Kingdom, Ministry of Energy**

The Conserving Kingdom play was originally developed by the Ministry in the fall of 1984 as an educational tool with the objective of promoting energy awareness and conservation to elementary school children. Ministry staff

## Comments on Government-wide Matters and Special Reviews

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calculated that the cost of producing both English and French versions of the play over the following three years totalled approximately \$1 million.

In order to be able to provide the program on a longer term basis and at a lower cost, the Ministry decided to produce a film version of the *Conserving Kingdom* play. As an educational tool geared towards younger children, the primary audience of the film was to be students in grades three to six in the province.

### *Film Production*

Terms of reference were sent to six film production companies in June 1985, four selected by the Ministry and two that subsequently became aware of the project. The film was to last between 25 and 30 minutes and have both an English and French version.

Five proposals ranging in price from \$156,000 to \$220,000 were received the following month. These were reviewed by a selection committee comprised of staff from the Ministry, educators and TVOntario personnel.

We were informed that three of the five proposals were rejected for technical reasons. Of the remaining two proposals, one was rejected because it was considered unrealistically low at \$156,000. The Ministry decided to accept the highest proposal of \$220,000, considering it to be "high but realistic". The Ministry entered into a contract with the successful bidder in July 1985 to produce a 28 minute film at a total cost not to exceed \$250,000, of which \$30,000 was for story rights and contingencies.

The Ministry extended the agreement in February 1986 for the production of three 4 minute vignettes and four 30-second public service announcements at a cost of \$85,000 and \$80,000 respectively. The cost of the vignettes was further increased by \$15,000 in a letter dated March 1986, thus increasing total production costs to \$430,000.

**A review of the vignettes indicated that significant portions were either excerpts or outtakes from the film. Although some incremental filming did occur, we questioned whether the incremental costs incurred were totally justified. We found no evidence to indicate that the Ministry determined whether the incremental costs paid for the vignettes and public service announcements were reasonable.**

### *Film Distribution and Promotion*

In May 1986, the Ontario Film Development Corporation (OFDC) supplied a list of potential distributors for the *Conserving Kingdom* film of which approximately ten were identified as good prospects. Terms of reference requesting distribution proposals were sent to five companies, four from the OFDC list as well as the company that had produced the film. We understand that the company that produced the film submitted the only proposal for its distribution, amounting to \$245,000 over two years.

## Government Advertising and Communications Expenditures

We reviewed the rating sheets for this proposal and noted that three of the four evaluators rated the proposal low with respect to cost effectiveness. We were informed that this company had no previous distribution experience with films of this type. Given that only one distribution proposal was received, and the cost effectiveness of the proposal was questionable, we felt that the Ministry should have called for additional proposals prior to awarding the contract.

A company, which at the time held an existing contract with the Ministry for the distribution of other films, was not asked to submit a proposal for the distribution of the *Conserving Kingdom* film. According to Ministry staff, verbal enquiries indicated that the company was not interested in distributing this film.

However, we were advised by this company that they were not contacted. They stated that they would have been pleased to submit a proposal based on the same terms as their existing contract with the Ministry. Under this agreement, the company distributed Ministry films for a fee of \$10 per distribution which includes courier charges.

### *Two-Year Agreement*

The Ministry entered into a two-year distribution and promotion agreement commencing July 1986 with the same company that produced the film. **Based on the terms in the agreement, the cost per distribution was approximately \$75. We questioned why the Ministry would agree to such costs when the existing contract provided the same service for \$10 per distribution.**

Under the agreement the total costs, which included film duplication, were not to exceed a maximum of \$245,000 over two years (i.e. \$175,000 in year one and \$70,000 in year two). By letter dated September 1987 the total contract limit was increased by \$50,000 to allow for further distributions in year two.

From a review of distribution invoices and other documentation, as well as discussions with Ministry staff, **it was apparent that invoices were approved for payment without the Ministry checking the actual number of film distributions or expenses incurred.** Information with respect to actual distributions and related costs had to be obtained from the records of the company distributing the film.

The contract guaranteed 600 English and 275 French distributions in year one. In our review of the company's records we found that the actual number of film distributions was approximately 475 in year one and 250 in year two. Accordingly, we questioned why an additional \$50,000 was provided for year two distributions.

**We also noted that for spring 1987 viewings the distribution company received 107 requests for film copies which were not filled.** We were unable to obtain an explanation as to why these orders were not filled.

In reviewing the distribution records of the company, it was apparent that there was little correlation between the actual costs incurred and amounts billed to the

## Comments on Government-wide Matters and Special Reviews

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Ministry. In fact, we were informed by the partners of the company that there was never any attempt to invoice the Ministry on the basis of services provided or actual costs incurred by the company.

**The company advised us that they were instructed by Ministry staff to bill to the \$245,000 maximum of the contract by March 31, 1987, irrespective of the services actually provided or the costs incurred to that date.**

Apparently the Ministry believed that the number of distributions in year one was much more than it actually was. Accordingly, the Ministry felt that it made sense to pay the two year total, in year one.

The Ministry informed us that it was undertaking a review of the payments made in year one of the agreement and amounts that remain outstanding with respect to year two. The Ministry was hopeful of recovering some of the amounts paid under this agreement.

### *Additional Matters*

The contractor duplicated 225 copies of the Conserving Kingdom film at a cost to the Ministry of approximately \$38,600.

For example, while the agreement called for the Ministry to pay \$50 for each of the 80 video tapes reproduced, **the Ministry's communications group was able to obtain comparable video reproductions for \$17.65 a tape.** Similarly, each of the 105 copies reproduced in 16mm format cost the Ministry \$250. **Two telephone quotations obtained by us for 16mm print reproductions of comparable length were \$138 and \$146 each.**

The amount paid for the promotion of the Conserving Kingdom film in the first year of the agreement was \$25,400 out of the total \$245,000 paid to the company.

**Promotion activity included attendance at a number of film festivals outside of Ontario including the USA and Europe. In fact, three company representatives went to London, England to promote the film in the London Market. Ministry staff appeared to be unaware of the details surrounding these promotions.** Furthermore, film promotion was not a part of the original proposal for year one. We were informed by company staff that such work was undertaken in year one since distribution did not require the level of effort previously anticipated. **In any case, the intent of such promotions was unclear since the Ministry's mandate is limited to Ontario.**

In reports prepared for the Ministry, the company identified that its promotional efforts had resulted in potential sales of \$1,600 to two other jurisdictions and the airing of the film on TVOntario.

It is interesting to note that airings on TVOntario were confirmed in a proposal preceding the agreement and therefore did not result from this promotional effort. It is also highly unlikely that future revenues will offset the costs of promotion.

## Government Advertising and Communications Expenditures

### Advertisements in Ethnic Publications, Management Board Secretariat

The Government Information/Communication Program was established in 1974 to support Ontario rural and suburban weekly newspapers and ethnic media with paid informational advertising. A large portion of this Program consists of producing and placing advertisements in ethnic media. The cost of ethnic advertisements in the 1988 fiscal year totalled approximately \$1.2 million.

At the inception of the Program, the ethnic advertising planning guide consisted of 68 publications. This number increased to 160 by April 1987 and 202 by December 1987. Ethnic advertising currently accounts for approximately 50 per cent of Management Board's total advertising expenditures.

### *Lack of Circulation Information*

The Advertising Review Board, which monitors government-wide advertising policies, has established eligibility guidelines to ensure that government ethnic media purchases would be cost effective. These eligibility guidelines include requirements that:

- upon application, the publisher must provide a printer's invoice showing the number of copies printed as well as a sworn statement of circulation; and
- these documents must be provided annually thereafter for the purpose of performing a circulation/cost analysis.

**Because this information was generally not being submitted, circulation/cost analyses could not be performed as suggested in the eligibility guidelines. Additionally, it should be noted that advertising rates are based on stated circulation.**

The Board sent a questionnaire to all ethnic publications in December 1987 to solicit circulation statistics, as well as other pertinent information. Second requests were sent to all non-respondents in March 1988. Of the ethnic publications currently on the approved media list, **48 continued to receive Government advertising despite not having provided the information requested. Between May 1987 and May 1988, Government advertising in these 48 publications totalled approximately \$240,000.**

In our 1983 audit of the Agency of Record and Government Advertising Expenditures, we reported that 64 of the 133 publications on the approved ethnic media list at that time had not provided information with respect to the number of copies printed or circulated.

We recommended that ethnic publications be advised that they are eligible to receive Ontario Government advertisements only if they comply with the guidelines, and that information with respect to the number of copies printed and circulated is mandatory.

### *Disproportionate Distribution of Ethnic Advertisements*

**A review of media invoices for a sample of advertisements indicated that certain ethnic groups had a large number of publications compared to**

## Comments on Government-wide Matters and Special Reviews

their proportion of the population, yet advertisements were placed in all of them. Examples are:

| Ethnic<br>Group<br># | Number of<br>Publications<br>with Government<br>Advertisements | Group's Population<br>as a % of Total<br>Ethnic Population | % of Total<br>Media Cost |
|----------------------|--|--|--------------------------|
| 1                    | 36   | 5.7  | 16.7                     |
| 2                    | 8  | .5   | 5.2                      |
| 3                    | 8  | .8   | 4.0                      |
| 4                    | 3  | 13.0   | 1.8                      |

We noted that for ethnic group number one, 17 of the 36 publications had not responded to the Board's questionnaire. In addition, since many of these publications serve the greater Metropolitan Toronto Area, we recommended that the current practice of placing advertisements in all of these publications be reviewed.

### *Publication Media Rates*

Advertising rates paid to ethnic publications for Government advertisements are set by the publications.

We reviewed advertising costs, assuming a 600-line advertisement, for the four ethnic groups with the largest number of publications and found that **the average cost of an advertisement per group ranged from \$53 to \$125 per 1,000 copies circulated.** The \$125 average, which was for the same group that had the largest number of publications (#1 in chart), excluded one publication by that group which charged \$288 for a 600-line advertisement and had an Ontario circulation of 100.

We acknowledged the need to reach as many people as possible and that all Ontario residents have a right to be informed. However, we recommended that the Board review the use of certain publications which, because of their relatively high rates and low circulations, may not be cost effective. Alternatively, we suggested that it may be more economical to negotiate ethnic media rates to obtain a more consistent and competitive cost relative to circulation.

## Ministry of Agriculture and Food

### *Retail Merchandising*

The Ministry hired an advertising agency to run two in-store promotions of Ontario produce. The agreements stated that fees for services should not exceed \$150,000 and \$200,000 for 1987 and 1988 respectively, and "shall be based upon the actual hours worked". However:

- the method of calculation and the total costs of producing promotional materials were not defined;

## Government Advertising and Communications Expenditures

- . hourly rates at which services were to be billed to the Ministry were not stated; and
- . the agreements did not provide for a competitive selection process for sub-contracted goods and services to ensure that they were acquired at reasonable rates.

With respect to the 1987 agreement the agency was paid exactly \$150,000, the maximum allowed under the agreement. The agency's invoices provided no details with respect to the amounts charged. Without additional details, it was not possible for Ministry staff to determine whether the amounts paid were reasonable.

An analysis prepared by the agency indicated that their costs, including the normal 15 per cent commission earned by the agency on materials produced, totalled \$137,500. **We were advised that the additional \$12,500 billed to the Ministry represented "service fees". We were unable to ascertain the basis on which this amount was determined or the reasonableness of the amount charged.**

Agency services and related payments for 1988 were not completed at the time of our audit. However, the 1988 agreement provided for a maximum progress payment of \$50,000 to be made by March 31, 1988. We noted that the Ministry was invoiced and approved a payment of \$75,000 at that time.

**We were advised by Ministry staff that approval of this increase was based on the additional work performed by the agency. However, our review of the agency's production records to April 29, 1988 indicated that the cost of materials produced, including commissions, was only \$11,200.**

### *Foodservice Binder*

The Ministry hired an agency to produce 2,000 foodservice binders for distribution to foodservice operators (i.e. restaurants and cafeterias). At the time of our audit the binders consisted of a guide describing when Ontario produce is available as well as inserts for strawberries, asparagus, carrots, onions and green house cucumbers. The total cost for the five inserts was approximately \$75,000.

The inserts were similar in format and consisted primarily of a short history of the fruit or vegetable, buying tips, storage information, cost per serving based on a range of prices, and nutritional information.

Our review of invoices and the agency's production records indicated that :

- . **competitive tenders for subcontracted work over \$400 were generally not obtained, contrary to the requirements of an interim agreement;**
- . **approximately one half of total costs were charges based on hours and rates. Neither Ministry nor agency staff could provide details justifying amounts billed and paid; and**

## Comments on Government-wide Matters and Special Reviews

a sample of six items billed at hourly rates exceeded amounts billable under the interim agreement by \$5,400.

We recommended that whenever possible the Ministry consider bringing some functions in house, particularly "product research", since this information should be easily obtained. We noted that research costs for the strawberry and asparagus inserts alone totalled \$7,600.

### Ministry of Tourism and Recreation

#### *Creative Service Costs*

We found that production cost estimates prepared by the Ministry's creative agency lacked sufficient detail to permit an effective review of proposed costs. While costs were sometimes segregated by components of the production process, they always lacked details with respect to the number of hours required, rates to be charged per hour, unit costs and overtime charges, if any. Many estimates indicated only the total project cost.

Actual invoices also lacked detailed information and often consisted only of a percentage progress payment based on the prior estimate. Where costs were itemized by components of production, the amounts were not detailed and often were not consistent with the groupings in the production estimate. **Without this supporting information, it was not possible for the Ministry to determine whether advertisements were produced economically.**

Even in those instances where it was possible to make comparisons, there was no evidence that amounts invoiced were reviewed for reasonableness and approved prior to payment. The following figures with regard to newspaper advertisements serve to illustrate:

|             | Estimated Cost<br>\$ | Invoiced Cost<br>\$ |
|-------------|----------------------|---------------------|
| Assembly    | 1,300                | 7,600               |
| Typesetting | 4,800                | 7,800               |
| Photography | 1,470                | 8,200               |

We were also advised that overtime charges were frequently incurred and billed to the Ministry, particularly during the first year of the agreement. However, neither the agency nor its suppliers' invoices specifically identified such charges. **Consequently, neither the Ministry nor ourselves were able to determine the extent of overtime charges and whether they were justified and reasonable in the circumstances.**

We recommended that the Ministry request detailed production cost estimates including itemization of the number of hours to be charged, rates per hour, unit prices and overtime charges, if any. Invoices should also be detailed and costs should be grouped in the same categories as in the estimates. Variances between estimated and actual costs should be fully investigated and explained, prior to approval for payment.

## Government Advertising and Communications Expenditures

### *Questionable Television Media Expenditures*

Television advertising is purchased by the Ministry to achieve a pre-determined number of gross rating points (GRP). GRP's are a broadcast industry measure of the reach of commercials and the frequency of exposure to specific target audiences. We were informed that where the amounts spent on broadcast advertising and GRP achievement are within ten per cent of what was planned, it is considered acceptable by industry standards.

**The Achievement Report for the Ministry's 1987 Ontario spring and summer television campaign indicated that over 25 per cent of the markets were both overachieved and overspent by more than 10 per cent.**

Therefore, objectives could have been met without spending the total budgeted amount. We were informed that after the initial purchase of advertising, the Government's Agency of Record found that it had not spent the amount budgeted. The surplus funds were used to increase the expenditures in three markets without consulting either the Ministry or its advertising agency. As a result:

- . actual expenditures in these three markets totalled \$189,100 which was \$38,900 more than planned; and
- . actual GRP's achieved exceeded planned by 24 per cent.

We recommended that the Agency of Record consult both the Ministry and its advertising agency before departing from the approved advertising plan.

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### **Ministry of Housing**

We determined from a review of the creative agency's cost records that the amounts paid to suppliers were correctly passed on to the Ministry. However, the agency's suppliers' invoices lacked detailed information with respect to items such as quantities purchased, unit prices or overtime charges, if any.

Agency staff were uncertain as to the details regarding specific charges or why costs varied significantly between advertisements. However, we were advised by both the agency and Ministry staff that work was generally performed on a rush basis. Therefore it was not unusual for additional charges to be made in excess of the normal rates, because the work was often performed overnight or on weekends. **Given the recurring nature of some advertisements the necessity for producing them under rush conditions was not clear.** This was particularly true for the Non-Profit Housing Program.

We were informed by agency staff that the standard costs for producing advertisements of the type we reviewed, assuming a normal production period of approximately five working days, would be between \$8,000 and \$10,000 including release materials and shipping. Actual costs for the advertisements reviewed were:

## Comments on Government-wide Matters and Special Reviews

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| Advertisement | Rent Review | Non-Profit Housing |
|---------------|-------------|--------------------|
|               | \$          | \$                 |
| # 1           | 37,900 *    | 10,200             |
| 2             | 16,000      | 21,300 *           |
| 3             | 10,500      | 12,900             |
| 4             | 17,500      | 20,800 *           |
| 5             | 16,500      |                    |

\* These advertisements were produced and shipped twice. After the advertisement was initially produced and released to the media, late changes were made to the text. **This necessitated re-producing and re-releasing the advertisements at considerable additional cost.**

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### Ministry of the Environment

Our review of informational newspaper advertisements indicated that the Ministry incurred approximately \$21,000 in media costs for placing French text advertisements side by side with equivalent English text advertisements in English newspapers. **One would normally expect that people purchasing newspapers printed in English would not need the same Government advertisements also printed in French.**

We recommended that the Ministry review its current practice of placing French text advertisements in English newspapers.

**Our review also indicated that two other advertisements were produced by the Ministry at a cost of \$1,900 and \$7,200 respectively but were never utilized.** We were informed that one of these advertisements did not receive Ministry approval for publication after it had been produced, while the other was produced before it was determined that funds were not available to run the advertisement.

We recommended that procedures be improved to eliminate similar non-productive advertisements in the future.

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### PROJECT EVALUATION

#### Ministry of Energy

The R-2000 program promoting the construction of energy efficient housing units was originally developed by the federal government about 1980. Ministry staff estimated that provincial R-2000 expenditures had amounted to approximately \$3 million, consisting of such items as builders' training, educational television and print materials, open houses and other promotions.

We were advised by Ministry staff that even though energy conservation is no longer a top priority, R-2000 is still being promoted but stresses other benefits such as improved air quality, quietness and the use of superior building materials and standards. The Ministry estimated that approximately 900 R-2000 housing

## Government Advertising and Communications Expenditures

units had been built in Ontario up to the end of 1987 and that 150 or 17 per cent of those were influenced by the Ministry's energy policies.

### *Production and Distribution Agreement*

The Ministry entered into an agreement in January 1986 with a national distributor of a home design magazine. The agreement required the magazine to produce and distribute a plan book containing 40 R-2000 home illustrations, as well as to produce and offer for sale architectural working drawings of each design. The cost to the Ministry was \$130,000.

In January 1987 a similar agreement was entered into with the magazine for another plan book, containing an additional 40 home illustrations, at a cost to the Ministry of \$125,000.

The primary target of the Ministry in promoting R-2000 construction should be potential homebuilders in Ontario. However, Ministry staff did not know either the total distribution of the magazine and the home plan insert, or the percentage of the total distributed in Ontario. **Information supplied to the Canadian Home Builders Association two months prior to the original contract indicated that 60 per cent of the magazine's distribution was outside of Ontario.** We therefore questioned the justification for this project since only 40 per cent of the plan books were distributed inside Ontario.

The contract did not require a certification of the actual distribution of the plan book or the number of R-2000 plans ordered and homes built to those specifications. Consequently, there was no system in place to evaluate the results achieved.

**Ministry staff estimated that 62 to 75 homes were built to R-2000 specifications in Ontario as a result of the first plan book. Since there was little demand for the R-2000 plans,** we questioned the decision to proceed with a second plan book in the following year. At the very least, the Ministry should have determined how many plans were purchased in Ontario and surveyed the Ontario purchasers to ascertain whether a second round of financing this project was justified.

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### **Ministry of Agriculture and Food**

#### *Special Promotions - "Spring Preview"*

The Ministry had commissioned its agency to produce 2,000 spring preview promotional kits for the foodservice sector which consisted of a fact sheet and suggested recipes, restaurant table cards and wall posters for Ontario produce. Total cost was approximately \$40,000.

Research undertaken on behalf of the Ministry indicated that:

- foodservice operators purchase produce based on quality and price, not product origin; and

## Comments on Government-wide Matters and Special Reviews

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- . many foodservice operators are regularly supplied by one wholesaler and do not get involved in the actual purchase decision. In many cases they are not aware of the origin of their produce.

**Therefore, the effectiveness of these binders being distributed to end users rather than suppliers is questionable.**

**Up to the end of April 1988, only 264 of the 2,000 spring preview kits produced had been distributed to 42 foodservice organizations, primarily as samples. Therefore, it was unlikely that many of the remaining 1,736 kits were distributed in time to be an effective "spring" promotion.**

We contacted 13 organizations that had received 160 of the 264 kits distributed. The following is a summary of their comments:

- . three did not recall the material;
- . four received and reviewed the material but did not use it for various reasons;
- . four recalled the material but were not sure whether it was used; and
- . two informed us that they used at least one of the items in the kit.

Although this analysis may not be conclusive as to the effectiveness of the promotion, it certainly suggests that the Ministry should carefully review the results achieved.

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### OTHER MATTERS

#### **Management Board Secretariat**

##### *Advertising Agency Selection Procedures*

The Advertising Review Board, a central administrative body which reports to Management Board of Cabinet, monitors government-wide advertising policies and is responsible for reviewing ministry advertising materials with respect to overall quality standards and communication objectives.

The Directives manual requires that the Advertising Review Board manage the acquisition of advertising and creative communication for ministries and Government agencies where these services exceed \$500,000 over three years, including the Agency of Record. The Board may also provide advice or assistance to ministries and agencies acquiring services of less than \$500,000.

Every agency indicating an interest in the contract is given a copy of the qualifying criteria and a capability questionnaire. Agencies who return the questionnaire form the long list of potential vendors. This list is then reduced to a shorter list of finalists, after the five member selection panel analyzes the completed questionnaires using established selection criteria as a guide.

## Government Advertising and Communications Expenditures

**However, in five of the six competitions we reviewed, including the Agency of Record, there was no documentation as to why some agencies made the short list while others did not. We recommended that the basis for selecting agencies for the short list be documented and retained, including analyses indicating criteria met and criteria not met for each agency.**

To make the selection process as verifiable as possible, the basis of awarding ratings should be documented. We found that this was not being done. This is particularly essential when there is a wide variance in ratings between selection panel members.

In selecting an agency remuneration was generally not a criterion. However, since remuneration is one of the criteria in determining value for money spent, it should also be one of the criteria in selecting an advertising agency. This is particularly important where agencies are remunerated on a basis other than the normal agency commissions (i.e. hourly rates).

### *Discounts Offered for Early Payments*

Standard industry practice is to pass along the discount of two per cent on applicable media invoices paid within ten days of the invoice date. Clearly, it is sound business practice for the ministries to pay the invoices within the ten day period.

In 1985 ministries earned approximately 95 per cent of the \$141,000 in discounts available through the Agency of Record. For the six months ending September 1987 only 20 per cent of the \$88,000 in discounts available was earned. **Discounts earned after September 1987 may decrease even further, since the Agency of Record no longer identifies early payment discounts offered on print media invoices.**

We recommended that the Agency of Record clearly indicate on invoices where early payment discounts are offered. We also recommended that ministries be reminded to pay invoices offering early payment discounts within the time required to earn such discounts.

## RESPONSES

The Ministries and Secretariat generally accepted the recommendations made and indicated that improvements were either planned or were already underway. The following are some extracts from responses received:

### *DUE REGARD FOR ECONOMY*

#### **The Conserving Kingdom, Ministry of Energy**

*"... the Ministry audited (Conserving Kingdom) film production records and accounts. Serious discrepancies were discovered. After consulting with the Ministry's legal staff, negotiations were conducted to adjust all outstanding invoices with the contractor to reflect the audit results. Since all the paid invoices had been endorsed by program officers, they were considered to be non-negotiable. The negotiations resulted in reduction of the final invoice to the*

## Comments on Government-wide Matters and Special Reviews

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*contractor by \$5,000. However, all films, print materials, and master copies on hand were retrieved from the contractor. The Ministry has arranged for TV Ontario to assume the distribution of the film and has delivered all the required materials to meet the outstanding training demands to TVO's warehouse."*

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### Advertisements in Ethnic Publications, Management Board Secretariat

*"Action has been taken on the recommendation . . . A final notice to 39 ethnic publications was sent by registered mail on October 7, with a return deadline of October 31. These publications will receive no further government advertising if they do not return the required information to the A.R.B. by the date specified."*

*"Ethnic newspapers cannot be measured in terms of cost efficiency on the same basis as English language newspapers, whose advertising costs per thousand are proportionately lower due to their mass circulation. It is necessary in the case of ethnic communications to use all publications available to a language group, in order to effectively reach a majority of the people in that group."*

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### Ministry of Housing

*"Except for current Federal-Provincial non-profit initiatives, none of the ads is of a recurring nature. The message, the audience, the approach are all tailored to meet specific program needs."*

*"Even in the case of the non-profit program, new approaches were being developed. These were based on federal-provincial negotiations that resulted in a boost to the federal-provincial program to a level of 6,700 units per year."*

*"In addition, the Province was exploring new, provincial only, non-profit initiatives which further complicated what our message would be and how we would get that message out."*

With regard to re-producing and re-releasing advertisements the Ministry advised us that there were exceptional circumstances which required these unusual actions.

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### Ministry of the Environment

*"In accordance with Cabinet Office and Office of Francophone Affairs guidelines, the Ministry now places french advertisements only in french language newspapers and english advertisements in english newspapers. If there are no french language media available in the designated area, the english copy includes a french sentence indicating where the reader may obtain information in french on the subject of the advertisement."*

## Increasing Inspection Audit Activity

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### PROJECT EVALUATION

#### Ministry of Energy

*"We still think that the payment made to the national distributor is . . . in support of a worthwhile private sector initiative to increase consumer awareness of the R-2000 concept."*

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### OTHER MATTERS

#### Management Board Secretariat

##### *Advertising Agency Selection Procedures*

*"The selection of advertising agencies is based on creative and service capability demonstrated by the companies competing for a contract. In most cases agency remuneration structures are not a factor. Most agencies work on the industry standard of 15 per cent commission allowed by the media. Value for money is achieved by careful planning and control of all costs by both agencies and their client ministries. One notable exception to this is the competition to select an Agency-of-Record. The criterion for the A.O.R. selection is the agency's charge for providing the service. The lowest qualified bidder was awarded the contract."*

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## 2.5

### Increasing Inspection Audit Activity

The current Audit Act came into effect in April 1978 and gave the Provincial Auditor the authority to conduct inspection audits of transfer payment recipients. The granting of this authority effectively recognized the significance of transfer payments in government. In Ontario they represent over 70 per cent of provincial expenditures.

Given the multiplicity of transfer payment recipients, it was not feasible, nor was it intended, that the Provincial Auditor undertake inspection audits on a broad scale. Instead it was left to the discretion of the Provincial Auditor to determine an appropriate level of activity.

Initially the Provincial Auditor conducted inspection audits only on an exception basis where, for example, evidence obtained in ongoing ministry and agency audits indicated that such audits were advisable. However, consistent with the generally increasing emphasis on government accountability, in recent years this Office has expanded audit activity to more specifically address the major recipients of transfer payments.

In 1984, in response to concerns expressed by the Public Accounts Committee, the Office undertook a special review of a College of Applied Arts and Technology. This review, while more extensive, included all of the elements of an inspection audit. Our findings were reported directly to the Committee. Subsequently, we conducted inspection audits at two more Colleges. The results were summarized in our 1985 and 1986 Annual Reports.

## Comments on Government-wide Matters and Special Reviews

In 1987 we extended our inspection audit activity to the university community. The more significant results of our first university audit are contained in the following section of this Report.

We are planning to conduct inspection audits of two more universities and to extend our audit coverage to other major recipients of transfer payments such as hospitals.

### 2.6

#### Inspection Audit, Trent University, Ministry of Colleges and Universities

With a staff of up to 1,000, Trent University offers degree and diploma courses to more than 3,000 full-time and 2,000 part-time students. During the 1988 fiscal year, the University received transfer payments amounting to approximately \$17.5 million (1987 - \$16 million) from the Ministry of Colleges and Universities.

#### SUMMARY

##### SCOPE AND OBJECTIVE

Our audit objective was to assess the adequacy of the University's accounting records and related procedures. Specifically, we examined whether:

- . enrolment data reported to the Ministry for funding purposes were accurate and complied with guidelines established by the Ministry and by the University;
- . assets acquired were properly controlled and accounted for;
- . controls over payroll and expenditures incurred by the University were adequate, and that such expenditures were made in accordance with the policies and procedures established by the Board of Governors.

By agreement with the University, our audit was restricted to expenditures funded by provincial grants. Any expenditures paid for through other funding sources such as federal grants, special donations or ancillary revenues (bookstore, student residences, etc.) were specifically excluded.

##### CONCLUSIONS AND FINDINGS

While some aspects were handled well, we concluded that, on the whole, the University's accounting records and related procedures were less than satisfactory.

##### ENROLMENT REPORTING

We calculated that since 1982, Trent has received approximately \$11 million which might otherwise have been granted to other universities. This \$11 million resulted from the University's use of enrolment reporting criteria which lacked evidence of required Ministry approval.

## Inspection Audit, Trent University

As a result of events subsequent to our audit, including the granting of retroactive approval by the Ministry, both Trent and the Ministry have concluded that no overpayment has actually occurred.

In addition, the University has failed to adhere to its own established enrolment criteria, resulting in overstatements of reported enrolment for funding purposes.

### PLANT ASSETS

Internal controls over plant assets were not yet adequate. Specifically:

- . No thorough check had been done in the last 10 years to ensure that Library books and serials, reportedly worth \$6.7 million, were not missing.
- . The University had only recently begun to prepare an inventory of furniture and equipment. Only \$2.2 million of the \$9.8 million worth of the reported assets had so far been identified and listed.

### OPERATING EXPENDITURES

We were generally satisfied that payment procedures for goods and services followed sound business practices and that controls over payroll were satisfactory. However, we were concerned that an unreasonably generous compensation package was granted to a former senior official of the University with no evidence of approval by the entire Board of Governors.

## COMMENTARY

### Background

Trent University was incorporated in 1963 under the University Act. The University registers students not only from Ontario, but from across Canada and other countries as well. Its degree programs include Arts, Science, Administrative Studies and Education. Canadian Studies, Native Management and Economic Development, and Native Studies are Trent's diploma programs.

The University employs up to 1,000 staff of which about 400 are hourly and 600 are salaried employees. Of the salaried employees, 270 are academic staff and 330 are support and administrative staff. Most hourly employees are support staff.

Total revenue of the University for the 1987 fiscal year was \$32.6 million. Provincial grants provided \$16.4 million of the revenue (50.3 per cent) with \$13.6 million based on student enrolment. Expenditures for the 1987 fiscal year totalled \$32 million, including about \$8 million for ancillary operations.

### ENROLMENT REPORTING

#### Overview

The enrolment data gathered from all Ontario universities is a key criterion utilized by the Ontario Council on University Affairs in assessing the financial

## Comments on Government-wide Matters and Special Reviews

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needs of these institutions and in arriving at the recommendation for the Ministry's support of their operations (excluding capital and special grants).

Provincial funding to all universities is a fixed aggregate amount for a particular year. Each year, the Minister of Colleges and Universities apportions these funds to institutions via an enrolment-based operating formula. The apportionment of operating grants to particular universities is based on submitted enrolment reports from previous years. The Ministry issues the Ontario Operating Formula Manual to provide the universities with guidelines for completing the enrolment reports. Guidance is also given to the universities' external auditing firms who are required to express an opinion to the Ministry on the fairness of reported enrolment figures.

The enrolment funding unit reported by Ontario universities is called a Basic Income Unit (BIU) which represents a weighted value for full-time students. Various weights are used depending on the program of study. For example, an Honours Science student is weighted twice as much as a General Science student, and a third more than an Honours Arts student.

Annually, the Ministry determines a value for each Unit. That value (\$ 4,400 for the 1987 fiscal year), multiplied by the Units calculated by the formula and reduced by the fees to be collected from students (formula fees), determines the funding level for the university. In the 1987 fiscal year, this complex formula included up to nine previous years of Unit data. Accordingly, should Units be misstated in a given year, future funding would be affected.

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### Grants Obtained without Evidence of Ministry Approval

As previously indicated, universities receive a higher level of funding for those students progressing towards an Honours degree. In those instances where a differentiation is not made between the General and Honours level in Arts and Science, the Ontario Operating Formula Manual states:

" All students in undifferentiated programs in Arts & Science not assigned a special weight should be treated as if they were in the general course, except in the case of fourth year students, who are readily acknowledged as being in the Honours category, and except for students in lower years who by virtue of academic standing or other appropriate criteria embodied in university regulations, may reasonably be categorized as Honours students. Criteria for such differentiation, insofar as they affect the calculation of formula claim, are subject to approval by the Ministry". (emphasis provided by Ministry)

The Ministry approval requirement was a contentious issue throughout the audit. Our report on the audit commented extensively on the matter, as did responses received from both the University and the Ministry. These comments are summarized as follows:

Trent made significant changes to its criteria for placing students in the Honours category in 1968 and in 1982. The first change had the effect of increasing the percentage of Honour students from about 20 per cent to 50 per cent of the beyond-first-year Arts and Science students. The second change increased this percentage to approximately 70 per cent.

## Inspection Audit, Trent University

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The substantial impact of these changes on the amount of funding received by Trent from the Ministry prompted us to seek evidence that the relevant criteria had been approved by the Ministry as required under the Ontario Operating Formula Manual. Numerous requests were made to both Trent and Ministry officials during the course of the audit but evidence of approval could not be found.

**As a result we concluded that Trent was being funded on the basis of criteria which had not received Ministry approval.** To illustrate the funding impact of the situation, we calculated that, for the five-year period 1982/83 to 1986/87, Trent had received approximately \$11 million that might otherwise have been granted to other universities.

Subsequent to the completion of the audit, Trent located correspondence which it felt established a clear case of Ministry approval of its enrolment reporting criteria from 1968 to the present. The Ministry was asked to provide written confirmation.

The Ministry accepted the University's position with regard to the period 1968 - 1981. (While in our view the correspondence on which acceptance was based was less than conclusive, we believe the decision of the Ministry was reasonable under the circumstances). However, the Ministry did not agree that it had approved the changes on criteria introduced in 1982. The Ministry noted that these criteria were not inconsistent with those previously approved. Therefore, the Ministry was prepared to consider a request by Trent for retroactive approval.

Trent made this request and received retroactive approval from the Ministry in a letter dated August 19, 1988. This letter also cautioned the University that "approval of future revisions to these criteria should be received . . . prior to reporting enrolment based on the changes".

**Based on the foregoing, both the Ministry and the University have concluded that there has been, in fact, no overpayment of operating grants to Trent.**

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### Non-Compliance with University Internal Guidelines

We also assessed whether the University accurately followed its own internal guidelines for enrolment reporting. A sample of 90 Basic Income Units, comprising 195 student files, was statistically selected for testing. We found 18 errors including:

- Two students were reported as Honours students despite having less than a 65 percent academic average.
- In five cases, courses were dropped prior to the cut-off dates for Ministry funding, yet they were still claimed for Ministry funding.

## Comments on Government-wide Matters and Special Reviews

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- . Eight part-time students were reported as Honours students when they clearly indicated that they were not even taking the courses for a degree but rather for general interest.
- . One student who was reported as an Honour Science student had not only failed to obtain credit for the required number of courses but also was taking mostly Arts courses.

The errors found represented an overstatement of approximately five per cent of BIUs. This was statistically significant and beyond the level established as acceptable in our sample design. Consequently, **we concluded that the University did not have an adequate level of compliance with its internal guidelines, resulting in a significant overstatement of reported Basic Income Units.**

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### Ineligible Students and Courses Included

The Ministry prescribes dates throughout the year at which universities are to count enrolment for funding. In fiscal 1986/87, the count dates during the regular academic year were November 1, 1986, and February 1, 1987. Programs or courses withdrawn from prior to one of these dates were ineligible for funding.

We performed further cut-off testing by selecting an additional 55 files of students who were reported to have withdrawn from courses or the University within one week of a count date.

- . Our test of 25 students who had withdrawn from the University showed that two students had not indicated the date of their withdrawals. Of the remaining 23 students who were reported by the University as having withdrawn after a count date, 18 had actually signed their withdrawal forms before that date. Thus, these 18 students were incorrectly claimed for formula support.
- . Our test of 30 students who had withdrawn from courses showed that one student had not indicated the date he withdrew. Of the remaining 29 students who were reported to have withdrawn after a count date, 21 had actually signed their withdrawal form before that date. We were informed by the University that the student who did not indicate the date of his withdrawal had also withdrawn before the count date.

Most of these errors were the result of applying a questionable University policy. The Registrar's Office informed us that the date stamped on the withdrawal form was the only date used for enrolment reporting cut-off purposes. They did not accept the dates of withdrawal indicated by the students. Nevertheless, University officials agreed that in 18 of the 40 discrepancies we noted above, they had received the withdrawal documentation before the count dates.

Our concern with the use of the confirmation stamp date is that there is no incentive and, in fact, there is a penalty for applying the stamp promptly

## Inspection Audit, Trent University

**on receipt of the withdrawal request.** Registrar staff admitted that this was not a priority during the busy cut-off period. In our sample, the difference in dates was sometimes more than two weeks.

It is not possible to quantify the aggregate error expected from these discrepancies as the total number of student withdrawals in any academic year could not be determined from current university records. However, **based on the very high error rate found in the sample and the typical volume of activity prevalent around Ministry count dates, the likely error would be significant.**

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### PLANT ASSETS

#### Overview

For the year ended April 30, 1987, plant assets were reported in the University's financial statements at an estimated cost of \$52 million. Consistent with Canadian university accounting practices, Trent does not record depreciation on plant assets. The asset components were:

|                                 | (\$ millions) |
|---------------------------------|---------------|
| Land, Building and Improvements | 35.5          |
| Furniture and Equipment         | 9.8           |
| Library Books and Serials       | <u>6.7</u>    |
|                                 | <u>52.0</u>   |

Our audit primarily focused on the latter two categories of plant assets because they are moveable and more susceptible to loss or misappropriation. However, some major acquisitions or dispositions of land and buildings were also reviewed.

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#### Incomplete Asset Records

In 1985, in order to bring its financial reporting in line with other universities, Trent increased the amounts recorded for "Furniture and Equipment" and "Library Books and Serials" in its financial statements by \$4 million and \$4.5 million, respectively. These amounts approximated the cost of assets that were paid for through the operating, ancillary and trust funds of the University. Previously, only assets paid for through the capital fund had been recorded. Although we could not substantiate the reasonableness of these amounts, Trent's external auditors were satisfied that these estimates were conservative.

However, since 1985, accounting records at the University showed no deletions from either the "Furniture and Equipment" or the "Library Books and Serials" balances in the financial statements. We noted that in recent years, equipment assets such as telephones, a human skeleton and a \$2,000 microscope were reportedly stolen or missing. However, these items had yet to be removed from the balance of "Furniture and Equipment".

## Comments on Government-wide Matters and Special Reviews

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Furthermore, while books and serials purchased after 1985 were recorded as assets, there has been no reduction made for any books lost since that time. According to the University Librarian, a thorough check had not been made in the last 10 years to ensure that no catalogued books were missing. We were informed that a partial count of books (covering three alphabetic letters) was performed in 1984 with extremely poor results, in that numerous books could not be located. The University did not keep records of this count.

We found no annual or periodic counts of "Furniture and Equipment" assets had ever been taken, primarily because no up-to-date listing of such assets had ever been prepared for comparison. However, in June 1987, University management began the task of establishing a "Furniture and Equipment" inventory. The listing was to include all assets valued at over \$1,000 and any items considered "attractive" or susceptible to loss. Management had insufficient time to complete the inventory or verify the existence of the listed assets before the commencement of our audit in September 1987. At that time only \$2.2 million of the reported \$9.8 million had been accounted for.

With respect to Library books, we understand that the University will be acquiring a computerized inventory system as well as a bar-coding system to facilitate future inventory counts.

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### *OPERATING EXPENDITURES*

#### **Overview**

Expenditures for Trent University for the year ended April 30, 1987, were \$24 million, including \$18.3 million for wages and benefits. This did not include ancillary operations.

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#### **Effective Payment and Payroll Practices**

Based on our examination, we were satisfied that the University established and followed appropriate payment and payroll policies and procedures. Specifically:

- All of the payments examined were made before their due dates, thus avoiding late payment charges. Furthermore, advantage was taken of sales tax exemptions and discount offers, where applicable.
- Invoices and cheque requisitions presented for payment generally bore evidence of receipt of goods.
- Adequate supervisory review and approval existed over the payroll function.
- Payments made to University employees, with respect to wages and salaries, were accurately calculated and approved.

## Inspection Audit, Trent University

However, we did note two areas where purchasing policies should be clarified. Firstly, purchase orders were frequently prepared after the receipt of goods, services and/or invoices. Secondly, dollar limits had not been established governing the use of tendering procedures.

### Questionable Backdated Compensation Contract

As part of our review of payroll transactions we examined the procedures for awarding compensation packages to senior officials. In the case of one senior official who completed an initial five-year term, the University renewed the employment contract in June 1985, for an additional five-year period, retroactively commencing January 1, 1985. Three months later, in September 1985, this official indicated his intention to resign, effective June 30, 1987, stating a personal interest in research and other activities as the reasons for resigning.

We noted that subsequent to the resignation announcement, the official was granted a revised renewal contract, still backdated to January 1, 1985. While the revised contract was signed by the Chairman and another member of the Board of Governors, there was no Board minute or Executive Committee minute indicating that this revised contract had been formally discussed and approved.

The revised document, covering a seven-year period from January 1985, to December 1991, included the following provisions, some of which were carried over from the original renewal contract:

- After the resignation date of June 30, 1987, the official would perform unspecified consultative duties to December 31, 1987, receiving full salary and benefits totalling \$60,000 during the six-month period.
- Subsequent to the above six-month period, commencing January 1988, the official would be granted a paid leave of absence of two years, receiving full salary and benefits totalling \$250,000.
- Subsequent to the two-year leave of absence, the official would be granted an additional two years of sabbatical leave (one year of which was earned under the first term contract), entitling him to full salary and benefits totalling another \$250,000.
- Payments of both principal and interest will be undertaken for five years to eliminate a \$50,000 mortgage obligation on the official's home.
- Finally, an additional option of a tenured academic staff position was granted to the official at the end of either the above mentioned leave of absence or sabbatical leave. The compensation would be at the maximum salary payable to a professor at the University, currently \$70,000 per annum. Should the official decide not to return to the University, an early retirement arrangement would be made.

## Comments on Government-wide Matters and Special Reviews

We feel that the terms and conditions contained in the compensation contract were exceptionally generous for an institution supported by public funds.

Even if the contract was intended to be a termination package, the magnitude of the settlement was questionable. A recent review of Canadian court cases showed that no senior employee has ever been awarded a court settlement of more than two years salary, even in cases of wrongful dismissal.

### RESPONSE

The response from the Board of Governors of Trent University included the following comments.

#### ENROLMENT REPORTING

The substance of the University's response to the issue of Ministry approval of enrolment reporting criteria has been included in the preceding Commentary.

#### **Other Enrolment Issues**

*"We have reviewed in some detail the alleged errors reported under the following headings and do not find these significant:*

*'Non-compliance with University Internal Guidelines' (we stipulate that there were 8 errors - not 18 - among the 195 files in the sample; the errors amounted to 2.4 BIUs out of 90 BIUs in the sample, yielding an error rate of less than 3%).*

*'Ineligible Students and Courses Included' (we accept that there were 16 errors around the count date, yielding a total overstatement of 2.7 BIUs, or 0.05% of reported BIUs)."*

#### PLANT ASSETS

#### **Incomplete Asset Records**

*"It is incorrect that accounting records since 1985 contain no deletions in the 'furniture and equipment' balance in the financial statements: reductions for trade-ins (\$5,641) and the sale of a vehicle (\$2,000) were made.*

*"In 1987 the University established a policy of capitalizing (and decapitalizing) items valued at \$1,000 or more. In 1985-86 and 1986-87 there was only one item (valued at \$2,000) that would have resulted in a reduction under this guideline.*

*"The Auditor was correct that no allowance has been made for lost and stolen books and serials since 1985. In North America university accounting records rarely take into account lost, stolen or obsolete items because, unlike in the private sector, there is no tax advantage and the practice is not, therefore, cost effective. The 1987-88 financial statements will reflect such an allowance, and when the library automation project is fully implemented, the allowance will become more precise.*

## Inspection Audit, Trent University

*"... The inventory listing (of furniture and equipment) which will allow for periodic inventory counts is now available and will be audited at the end of 1988-89."*

### OPERATING EXPENDITURES

#### **Effective Payment and Payroll Practices**

*"The auditor notes in his report that although the central purchasing office was sometimes bypassed, the University had good payment practices that were not affected."*

*"... Steps have already been taken to enforce the requirements of the purchasing policy where they are being bypassed inappropriately."*

*"The University agrees that the lack of specified dollar limits for items requiring verbal quotes, written quotes or calls for tender in the purchasing policy is a shortcoming currently under review."*

#### **Questionable Backdated Compensation Contract**

*"The chronology in the Provincial Auditor's report is incorrect. The senior official in question was reappointed by the Board of Governors for a second five year term in 1983, well before the end of the first term. The renewal contract was finalized after the beginning of the second term and the exit contract was signed before the official announced his resignation."*

*"Responsibility for the determination of terms and conditions of employment for officers at this level of seniority had been delegated by the Board of Governors to a committee of three consisting of the Chairman of the Board, the Vice-Chairman of the Board and the Chairman of the Executive Committee of the Board. Two of these three members signed the exit contract, approving the terms on behalf of the Board of Governors. The practice of delegating this authority was reviewed and reconfirmed by the Board of Governors following receipt of the first draft of the Provincial Auditor's report earlier this year."*

*"In 1985 the Board of Governors and the senior official in question mutually agreed that it would be in the best interests of the University if the official left administrative office at the end of June 1987. To permit a smooth transition it was further agreed that there would be a six month period of consultancy beginning July 1, 1987 and that the terms of the renewal contract would be honoured by the University. Some observations and clarification of the terms of the exit contract follows:*

- . The official did perform consultative duties at the request of the University in the period June 30 to December 31, 1987.*

## Comments on Government-wide Matters and Special Reviews

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- *The paid leave between January 1988 and December 1989 represented the University's obligation to fulfill the terms of the contract for the duration of the five-year renewal.*
- *As stated in the Auditor's report one year of sabbatical leave had been 'earned' under the first term contract. Likewise, since the official served from January 1, 1985 until December 31, 1987, three-fifths (or eight months) of the second sabbatical year was 'earned' under the renewal and exit contracts.*
- *The \$50,000 mortgage was arranged by the University when the official came to Trent so that a house suitable for university functions could be purchased. Retirement of the mortgage was granted in lieu of a housing allowance during the period in which the individual held administrative office.*
- *The individual in question had held tenure elsewhere since the late 1950s and was a senior tenured professor at another university earning more than Trent's maximum professorial salary in 1980 when he came to Trent. A tenured professorial appointment was granted, quite separate from the contractually limited administrative post in question, in 1980. Once granted, tenure can only be removed for cause and post-contractual academic tenure was not an element of the contracts limiting the administrative appointment. Early retirement options are available to all senior faculty at Trent.*

*"Because the official in question served in an administrative capacity for five years under the first contract and for three of the originally intended five years under the renewal contract, the settlement provided in the exit contract could be characterized as amounting in total to compensation for two years (of leave) and four months (of 'unearned' sabbatical). Even though the comparison is not valid, it should be noted that this is only four months more than the court-awarded settlements alluded to by the Provincial Auditor and, of course, there were no court costs."*

## CHAPTER 3

### COMMENTS ON MINISTRY AUDITS

#### 3.1

##### Introduction

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ongoing ministry audits. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 2.

#### 3.2

##### Escalating Costs and Delayed Implementation, Comprehensive Income Maintenance System, Ministry of Community and Social Services

The Ministry is currently implementing an integrated computer system, called the Comprehensive Income Maintenance System (System), as part of its ongoing efforts to effectively deal with steadily increasing income maintenance caseloads.

The Income Maintenance Activity of the Ministry provides financial assistance to Ontario residents in need who are unable to support themselves. Such assistance includes Family Benefits Allowances and General Welfare Assistance.

Expenditures for income maintenance for the 1988 fiscal year totalled \$1.8 billion (Vote 802, Item 3).

#### SUMMARY

##### SCOPE AND OBJECTIVE

During our audit, we examined Ministry documents, Management Board of Cabinet submissions and minutes, and interviewed Ministry personnel. We also visited and interviewed staff in two Ministry and two municipal offices.

Our audit objective was to assess whether the Ministry had exercised adequate cost and time controls over the development and implementation of the Comprehensive Income Maintenance System project since its inception in 1980.

##### CONCLUSION AND FINDINGS

We concluded that the Ministry had not exercised adequate cost controls and had not met scheduled delivery dates in the development and implementation of the System. Some of our specific concerns were that:

- . Originally, the System was scheduled to be developed by December 1982 at a cost of \$3.6 million. However, as of March 1988, it had been developed and implemented in only 28 of some 94 offices, at a cost of almost \$23 million.
- . Poor project cost controls had resulted in the Ministry understating costs incurred.
- . Weaknesses in the acquisition and management of consulting services contributed to higher costs and project delays.

## Comments on Ministry Audits

- **Provincial and, in particular, municipal pilot offices questioned the usefulness of the System.**

### COMMENTARY

#### Background

The Family Benefits Allowances Program is partially funded by the Federal Government which pays 50 per cent of the cost while the Province pays the other 50 per cent. The Program currently handles a monthly caseload of about 160,000 cases and is administered by the Ministry through approximately 70 local offices.

The General Welfare Assistance Program is 50 per cent funded by the Federal Government, 30 per cent by the Province, and 20 per cent by the municipalities. While the Program is a Provincial responsibility, it is administered by approximately 350 municipalities and Indian Bands, which look after an estimated 110,000 recipients per month.

In 1978, a Ministry Task Force recommended the development of an integrated computer system to replace the five existing computer systems supporting the administration of both Programs. As a result, the Comprehensive Income Maintenance System was initiated in July 1980. It was intended that the System would be operated in 44 Ministry and 50 municipal offices.

The System is intended to provide the capability of combining data on Family Benefits and General Welfare recipients and minimizing duplication of administrative functions at provincial and municipal levels. It is also being designed to provide better information for management operating in a decentralized program delivery environment.

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#### PROJECT DELAYS AND COST ESCALATION

Numerous delays and cost increases have been encountered by the Ministry throughout the development of the System.

Following the completion of a feasibility study by a firm of consultants in February 1980, the firm was awarded a contract in July 1980 to manage and staff the development of the System. **The firm estimated that development would be completed within 2 1/2 years and cost approximately \$3.6 million. A portion of the cost was reimbursable by the Federal Government.**

In December 1982, the Ministry advised Management Board that the management ability of the consulting firm, which had been paid \$2.2 million, was not effective. It, therefore, requested approval from the Board to complete the System under Ministry management. **Also, the Ministry estimated that total project cost and duration would increase from \$3.6 million over three years to \$8.3 million over five years.** In this regard, the Ministry attributed the increase to an expanded scope and greater complexity of the project. The Board approved the Ministry's request in February 1983 and noted that the Federal Government would contribute \$5.8 million.

## Community and Social Services

### Comprehensive Income Maintenance System

During April and May 1985, the first pilot tests were conducted in three municipal offices and two provincial offices. However, the number of problems which began to surface necessitated the allocation of all implementation resources to on-site support, trouble-shooting and problem identification. The Ministry decided that no further implementation should be undertaken until most problems had been resolved.

**In April 1986, after a reassessment of costs, Management Board approved a further increase in the cost of the project to \$19.4 million.** The Board noted that reimbursement for the project from the Federal Government would be \$10.4 million.

In September 1986, the Ministry submitted a status report to Management Board noting the recommendations of its Technology Steering Committee. The report indicated that the Committee, made up of senior management of the Ministry, had agreed that the System was technically ready for further implementation. However, the report noted that, due to user management considerations in regard to caseload staffing and the upcoming holiday season, the Committee had recommended to the Deputy Minister that future implementation should not commence until January 1987.

In May 1987, in another status report, the Ministry indicated that it planned to finalize implementation in 36 of its offices in the 1988 fiscal year.

**At the conclusion of our audit field work in March 1988, we noted that conversions had been completed in only three municipal and 25 Ministry offices at an estimated cost of \$23 million.**

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#### *POOR COST CONTROLS*

More than eight years have elapsed since the inception of the System project. We noted that, during this time, the Ministry did not maintain a proper accounting of costs pertaining to the project. Accordingly, the true costs of the project were not readily determinable.

The following examples were indicative of a lack of proper project cost accounting control:

- **Numerous employees worked on the project, yet their salaries were not specifically identified in the accounting records as relating to the project.**
- **We reviewed the 1987 fiscal year time sheets of 23 consultants who had been engaged to work on the System. According to these records, the consultants had billed the Ministry for approximately \$1.2 million. However, we found that only half of this amount was reported as project expenditures. The rest was shown under the Ministry's general overhead expenditures.**

## Comments on Ministry Audits

- Also, the amount of time spent by field offices and administrative staff in completing the System was not recorded and reported as part of the overall project costs.

Our March 1988 estimate of \$23 million will likely increase by at least \$700,000 in the 1989 fiscal year to complete implementation in the remaining Ministry offices. Costs to implement the System in the remaining municipal offices have not yet been determined pending finalization of implementation plans.

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### *WEAKNESSES IN THE ACQUISITION AND MANAGEMENT OF CONSULTING SERVICES*

#### **Continued Reliance on Consultants Costly**

In most instances, continued reliance on consultants is uneconomical and could be seen by the public as permitting a vendor to gain a monopoly on a particular kind of work. Therefore, Ontario Government guidelines on the acquisition of consulting services discourage continuous reliance on outside organizations.

Due primarily to the unanticipated complexity and complications encountered, the Ministry has relied quite heavily on consultants. From the project's inception in 1980 until March 31, 1988, we estimated that the Ministry had entered into more than 300 consulting contracts and spent approximately \$10 million on consulting services. Approximately \$7.5 million of this amount was spent after April 1, 1983, when the Ministry assumed management of the project. The length of these contracts ranged from 3 to 12 months.

Many of the contracts were continuation arrangements with the same consultants who had previously worked on other Ministry projects. For example, **four consultants had been under contract to the Ministry for more than seven years at rates of between \$250 and \$430 daily, earning fees between \$60,000 to \$100,000 annually. These earnings by consultants were more than double the salaries earned by employees occupying comparable positions within the Ministry.**

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#### **Consultant Selection Process Too Restrictive**

On July 29, 1986, Management Board approved a request from the Ministry to tender for systems consulting services on a per diem basis. Approval was limited to a maximum of 22 person-years to provide the systems support during the period October 1, 1986 through March 31, 1988. The approval was also given on the understanding that consultants would work under contracts with defined requirements. A number of consulting firms were then requested by the Ministry to submit proposals for providing EDP staff assistance.

We noted that the 1986 request for consulting services up to March 31, 1988 was essentially a continuation of a 1984 request for consulting services to September 30, 1986. The resulting tenders were evaluated by the systems branch based on the following criteria:

- understanding of the project;

## Community and Social Services

### Comprehensive Income Maintenance System

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- per diem cost and availability;
- relevant experience/qualifications; and
- previous Ministry or Ontario Government experience.

**In reviewing the tenders submitted, we noted that all 19 consulting contracts were awarded to individuals with prior experience on the project, while those applicants without such prior experience were not awarded any work.** Although there would be benefits in hiring consultants with such prior experience, we felt that the selection process essentially eliminated bidders who had not previously worked on the System. Consequently, we questioned whether the process was really open and fair to all bidders.

In March 1988, the Ministry invited proposals from four consultants to undertake a number of System-related projects ranging in duration from 6 to 12 months. Again, only the consultants with prior project experience were hired.

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#### Consultants' Work Not Clearly Defined

As indicated earlier, in 1986, Management Board approved the Ministry's request to engage consultants on the understanding that consultants would work under contracts with defined requirements. However, the contracts were worded in general terms only. For example, terms in contracts since 1984 have required the consultants to deliver "programming specifications and systems documentation". Yet these requirements were not defined in any detail nor was there any timetable for when the consultants were to complete their work.

**Without a clear definition of what is specifically expected and established deadlines, there is no incentive to deliver a finished product on time. This could result in higher costs due to an increased number of days on the assignment by the consultant.**

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#### USER CONCERNS

We held discussions with users in each of two Ministry and municipal pilot offices to obtain their views on whether the Comprehensive Income Maintenance System was working satisfactorily.

The users felt that the System was processing information faster than the previous computer systems and that it had more automated functions. In addition, the System's on-line inquiry capability allowed caseworkers to identify clients who might have already been receiving assistance from another income maintenance program and/or location.

On the other hand, the users, particularly those at the municipal offices, expressed the following concerns regarding the System:

- **Numerous problems were encountered at the pilot offices during implementation.** For example, the offices indicated that major changes were sometimes incorporated into the System without adequate testing.

## Comments on Ministry Audits

In this regard, changes requested by users between early 1985 and December 1987 totalled over 3,000. Although the number of requests have diminished, it remained high throughout 1987, averaging about 70 problems per month.

- Additionally, **the users felt that the Ministry's training had been poor, and that the user's manual was too complex and cumbersome.** We were informed that the Ministry has since revised its training program and the user's manual.
- The pilot offices felt that the System was unduly complex and the degree of precision required to input the data on each recipient was very high. For example, the System had close to 1,200 edit rules which control the processing of data. One office commented that its staff, even the most competent ones with computer background who understood the System, made a considerable number of errors.

The municipal pilot offices also felt that unlike Family Benefits, General Welfare provides temporary and emergency assistance and, therefore, does not lend itself to such a rigid System. **The edit rules, while useful, could in some cases delay the issuance of cheques and create undue hardship to General Welfare recipients.** The municipal caseworkers indicated that they were servicing an unsophisticated clientele, who in some cases might not be aware of their case identifiers such as O.H.I.P. and S.I.N. Therefore, in their opinion more responsiveness was required of the System for General Welfare cases compared to Family Benefits cases.

The Ministry maintained that strict controls were necessary to ensure that only eligible recipients received Welfare Assistance.

- **All of the pilot offices we visited indicated to us that, overall, the System had not reduced their workload when compared to the old systems.** In one Ministry office, for example, the number of input forms had increased from approximately 2,300 in one year to over 4,000 the following year when the System was implemented.

Moreover, the caseworkers were concerned that too much time was spent by them on the System and its related problems rather than on case management with Welfare recipients. **A study by one Ministry office, subsequent to implementation, noted that caseworkers now spent up to 60 per cent of their time in the office working on the System, compared to just 20 per cent previously.**

In 1986, the Deputy Minister met with members of the Ontario Municipal Social Services Association to assure them that no further implementation would take place until the pilot offices had collectively agreed that the Comprehensive Income Maintenance System had stabilized and was acceptable to them.

To date, the municipal offices have not agreed to the acceptability of the System. We understand that management will be meeting with representatives from the Ontario Municipal Social Services Association to discuss the implementation schedule.

## Community and Social Services

### Comprehensive Income Maintenance System

#### RESPONSE

The Deputy Minister replied to our findings on October 12, 1988.

#### General

*"In your audit of the Comprehensive Income Maintenance System . . . you concluded that the Ministry has not exercised proper cost and time controls over the development and implementation of CIMS. You specifically expressed concerns about :*

- . the cost of CIMS increasing from \$3.6 million to \$23 million; and*
- . poor project costing and understated costs.*

*"I must state at the outset that I believe the substance of your findings to be incorrect. Indeed it was because of the recorded management actions and control points that a detailed audit review was possible."*

#### PROJECT DELAYS AND COST ESCALATION

*"At each stage in the development of CIMS, proper management actions and procedures have been followed. Up to date and accurate costs and estimates have been available to Ministry management and Management Board at all points throughout CIMS development and implementation.*

*"Your staff have chosen to include elements of cost which, in my view, are not appropriately charged to CIMS, and in any event, are based on two differing views of what are properly to be charged to systems development costs.*

*"I would now like to comment more specifically on your . . . listed concerns and the overall issue of very large systems development. I am extremely concerned that your staff have not attempted to relate our experience to acknowledged, well known and accepted experiences elsewhere. Designing and implementing large complex systems, in this case one million lines of COBOL code, was pioneering work for most organizations in the early 1980s. One simply has to look at the multi-millions of dollars which were spent by the banks and other jurisdictions to realize the expenses involved in large systems. You will see from what I have written below, that even one of the most experienced consulting firms in Canada underestimated the costs for CIMS.*

*"The costs of CIMS rose from \$3.6 million to \$14.5 million for development and pilot implementation or \$17.0 million including allotments for site implementation for the period covered by the audit. This is in contrast to \$23 million implied by the words used in your report. We presume that the \$23 million figure includes non-development costs such as computer charges for actually producing the welfare cheques for clients and overhead costs which would be present whether CIMS were to exist or not.*

*"I agree that the increase in cost since the inception of the project is substantial and requires explanation. Ministry management acted prudently at the start of the project and retained, after a tender and Management Board approval, one of the*

## Comments on Ministry Audits

*most respected computer consulting firms in the country to provide an estimate of project costs. The fact is that the consultant, despite his expertise, misjudged the complexity of the income maintenance program, and underestimated the likely difficulty and cost of developing a complex new system. Management acted decisively and appropriately when it became apparent that the original cost estimates and plan were going to be inadequate. The consulting firm was released, re-planning and re-forecasting were carried out, and new approval was obtained from Management Board to proceed under Ministry project management using a wide variety of consulting personnel selected for their demonstrated expertise.*

*"Further cost increases beyond the Ministry re-estimate occurred for three reasons. Firstly, a major expansion to the system scope was approved to include the retroactive budget calculation function within the GWA component. Second, the level of difficulty experienced during the pilot implementations was greater than anticipated due largely to a higher number of programming bugs than expected, which in hindsight was common to large systems, and the implementation of an integrated common data file structure to the dual delivery systems of FBA/GWA. Finally, major legislative enhancements and program initiatives have been introduced since 1983 necessitating substantial changes to computer code. Costs for these types of changes are not included in the development estimates because it would be impossible to predict their timing and impact.*

*"I have looked into the cost of CIMS against similar large systems in other jurisdictions and on this basis am convinced that the cost incurred has been reasonable. The following examples are relevant:*

*Public Assistance System, State of Georgia:*

*Original development cost - \$10.8 million over a nine-year period - subsequently extended and expanded state-wide.*

*Costs of systems operations, maintenance, implementation and enhancements since 1982 have been an additional \$58.2 million.*

*Public Assistance System, State of New Mexico:*

*This system is based on the already developed Georgia system and yet cost \$13.8 million excluding operating and maintenance costs. It supports a caseload of 84,000 clients versus 260,000 supported by CIMS.*

*Analysis of Data Presented by James Martin (one of the world's leading experts) in 1987:*

*James Martin analyzed a number of large systems developed in the United States in COBOL. His analyses show a range of actual experience of from \$8 to \$50 per line of COBOL code. Applying this to CIMS, which has one million lines of COBOL code, would give an equivalent range of costs as compared to similar systems of from \$8 million to \$50 million.*

*Reference in 'Programming Productivity' by Capers Jones, (a widely quoted authority on systems development productivity) McGraw Hill, 1986:*

## Community and Social Services

### Comprehensive Income Maintenance System

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*A cost analysis of a large order entry, sales and inventory system (500,000 lines of code) employing COBOL is included in his book. This system would compare approximately to CIMS.*

*The costs and project duration quoted are five years and \$19 million to the end of the development phase.*

*"All of these comparisons show that CIMS is in the range of development costs for systems of this size and complexity. Very large COBOL systems are notoriously difficult and costly to develop. It is for this reason that systems development productivity tools such as CASE (computer aided systems design) and automated code generators have been brought on to the market within the past couple of years to reduce the cost and time expended in bringing complex systems into existence. These tools were not available to systems developers in the early 1980s, and the above range of costs reflect experience with actual large developments over the period in question."*

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#### POOR COST CONTROLS

*"Poor project costing is one of your findings. This is based on an opinion of your auditors regarding the attribution of costs which we believe to be in error. Your costs include operational field staff time, network operations and computer rentals, all of which are ongoing and would be costs whether CIMS were to exist or not. With one exception (see below), the Ministry's cost attribution to CIMS has been accurate.*

*"Your staff did identify one situation where additional implementation staff were re-assigned and network staff were hired directly as a result of CIMS implementation and not reflected in the project costs. We accept your opinion that these costs should be included in the total CIMS project cost. We have now adjusted the CIMS costs by \$2.5 million to reflect your finding for the period covered by the audit."*

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#### WEAKNESSES IN THE ACQUISITION AND MANAGEMENT OF CONSULTING SERVICES

*"We have always strictly tendered for consultants and obtained Management Board approvals where necessary. Consultants have been hired based upon multiple criteria including cost, knowledge and experience. As was explained to your staff, CIMS is written in the System 2000 data base language which requires that programmers with relevant experience be hired if the learning curve is not to be too long and costly. We firmly believe that the consultants have been hired economically and in such a way to maximize the likelihood of success with the project. All consultants were, and are, evaluated although not with the formal documentation you wish to see. We will introduce a more formal, documented evaluation process in the future."*

## Comments on Ministry Audits

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### USER CONCERNS

*"... Many of your findings regarding user concerns are not current perceptions of the majority of users. Although it is true that CIMS was long in being developed and the pilot sites of three years ago experienced a considerable degree of dissatisfaction, you do not balance that historical truth against the current state of CIMS. I travel throughout the field constantly and my perception, contrary to that of your staff, is that CIMS is regarded as a success and being well implemented. ... I suggest that if your auditors had spent more time with the offices which have been implemented from Hamilton onwards, rather than the original pilot offices where there were initial difficulties, they would have come to a different conclusion.*

*"I consider that CIMS is now a successful system which has introduced consistency into our delivery of the income maintenance program, will deliver major benefits in terms of service, control, and productivity, and will provide the flexible base which will allow us to move rapidly to introduce the initial change process flowing out of the report of the Social Assistance Review Committee."*

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### CLARIFICATION OF RESPONSE

In view of the Deputy Minister's substantial disagreement with the content of our report, we wrote to him providing further information with particular reference to project costs and user concerns.

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### PROJECT DELAYS AND COST ESCALATION

*"On several occasions during the course of our audit we requested, without success, documentation from responsible staff within your Ministry showing a detailed breakdown of the project's actual versus estimated costs and the sources these costs were derived from. In fact, the \$17 million figure quoted ... in your response is the first composite figure to be reported to us.*

*"As the Ministry could not provide us with details, we compiled cost figures from various accounting and payroll records maintained by the Ministry over the past eight years. For the most part, we extracted costs clearly identified in these records as directly relating to CIMS development and implementation. We estimated certain other salary, consulting and computer processing costs. However, we made sure that recurring or non-development charges were specifically excluded from our calculation. Our breakdown of costs indicated that an estimated \$23 million had been spent on the CIMS project as of March 1988. This breakdown was provided to your staff on August 3, 1988. At our exit meeting on September 14, your staff did mention that they disagreed with our estimate. However, they did not indicate specifically which components of costs included in our estimate were incorrect.*

*"Given the sketchy financial information available to us, we are confident that the elements of cost we included in arriving at the estimate of \$23 million are as accurate as can be reasonably expected under the circumstances. In fact, we believe the figure to be a conservative estimate.*

## Community and Social Services

### General Welfare Assistance Program

*"The reasons (for cost increases beyond the Ministry re-estimate) are not entirely consistent with the ones provided to Management Board in the Ministry's requests for additional funds.*

*"According to the Ministry's initial submission to Management Board in 1980, the retroactive budget calculation function was already part of the original system scope.*

*"In its second submission to Management Board, in 1982, the Ministry attributed the higher costs of \$8.3 million to 'an expanded scope of the application, particularly to support plans to put FBA employables under Municipal Administration'. These plans were never implemented to any significant extent.*

*"The further increase in costs to \$19.4 million, approved by Management Board in 1986, were not supported by any written explanations from the Ministry.*

*"We acknowledge that there are undoubtedly large systems in other jurisdictions, and even in the provincial government for that matter, which have incurred both greater and lesser development costs than CIMS. This in no way mitigates the Ministry's responsibility to have sound cost and project delivery controls in place. Accordingly, our audit objective was to assess the fulfillment of this responsibility. The cost of systems in other jurisdictions was not relevant to this objective."*

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#### USER CONCERNS

*"Our visits were made during January 1988 and reflected the opinion of the users at the time.*

*"We visited two out of the only three municipal (GWA) offices that had been implemented at that time.*

*"Of the 19 Ministry (FBA) offices operating at January 1988, 14 had been implemented for three months or less. Quite frankly, we were well aware that it takes a few months to 'work the kinks out' and felt that visiting those offices where CIMS had just been implemented could have presented somewhat of a biased picture. Therefore, for our visits, we selected two out of the remaining five offices.*

*"We are pleased to note that eight months after our visits the Ministry (FBA) offices are now operating smoothly. However, as we very clearly emphasized in our report, we remain concerned with implementation in the municipal (GWA) offices."*

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### 3.3 Unsatisfactory Monitoring Procedures, General Welfare Assistance Program, Ministry of Community and Social Services

The General Welfare Assistance (GWA) Program provides emergency and short-term financial assistance to people who are unable to pay for such basic necessities as food, clothing and shelter. GWA allowances and benefits are provided by the Ministry under the authority of the General Welfare Assistance Act and related regulations. In addition, GWA recipients are entitled to free prescription drugs under the Ontario Drug Benefit Act.

## Comments on Ministry Audits

During the 1988 fiscal year, the Ministry spent a total of \$1.9 billion on income maintenance programs of which \$604 million pertained to General Welfare Assistance (Vote 802, Item 3).

### SUMMARY

### SCOPE AND OBJECTIVE

In conducting our review of the Ministry's General Welfare Assistance Program, one of our objectives was to assess whether the Ministry's monitoring procedures were adequate to ensure that legislation and Ministry guidelines were followed by municipalities.

### CONCLUSION AND FINDINGS

**The Ministry's monitoring procedures were inadequate to ensure that legislation and Ministry guidelines were followed by municipalities.**

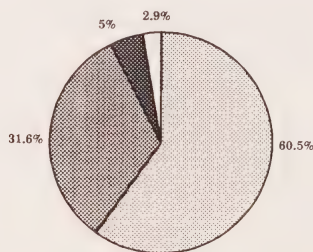
- . **Area offices had insufficient resources to conduct regular eligibility reviews.**
- . **The head office information system did not provide enough performance data.**
- . **Poor control over blank Drug Benefit Cards could lead to unauthorized use.**

### COMMENTARY





### Overview

In the 1988 fiscal year, the Ministry allocated 31.6 per cent of its total income maintenance expenditures to the General Welfare Assistance Program.

**Income Maintenance Expenditures, 1988 fiscal year**



(\$ million)

|   |                                      |
|---|--------------------------------------|
|  | Family Benefits Allowances (\$1,157) |
|  | General Welfare Assistance (\$604)   |
|  | Drug Benefits (\$95)                 |
|  | Other Expenses (\$56)                |

## Community and Social Services

### General Welfare Assistance Program

Approximately \$460 million of the \$604 million expenditure pertaining to General Welfare was spent by 12 major municipalities. The cost of providing GWA is generally shared by the Federal, Provincial and Municipal Governments as follows:

|                    | Federal | Provincial | Municipal |
|--------------------|---------|------------|-----------|
| Welfare Assistance | 50%     | 30%        | 20%       |
| Drug Benefits      | 50%     | 50%        | 0%        |

While primarily funded by the Federal and Provincial Governments, the GWA Program is administered by approximately 350 municipalities and Indian Bands, which look after an estimated 110,000 recipients per month. The Ministry reimburses both the Federal and Provincial share to the municipality or Indian Band. The Ministry then recovers the Federal Government's share under the terms of a Federal/Provincial Cost Sharing Agreement under the Canada Assistance Plan Act.

The Ministry monitors all of its social programs, including GWA, through 4 regional and 13 area offices. In addition, there are several support branches at the head office in Toronto which develop policies and procedures pertaining to the delivery of the various programs.

The Ministry's regional and area offices are primarily responsible for the periodic assessment of municipal and Indian Band compliance with these policies and procedures. Review Officers located in each area office assist management in monitoring the delivery of GWA as well as other Ministry-funded programs. The Review Officers are responsible for regularly visiting municipalities to verify the accuracy of GWA claims for reimbursement. As well, they verify that payments are made only to eligible recipients.

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#### MONITORING

#### Weaknesses in Review of GWA Claims

##### *Inadequate Ministry Resources*

Our review disclosed that 27 Review Officers were responsible for approximately 350 municipalities and Indian Bands. The scope of work carried out at the municipal level depends to a large extent on the Officer's available time. We noted that :

- **Eligibility reviews in the largest municipalities have not been performed by Officers for a number of years.** In addition, in two of the three area offices we visited, the verification of reimbursement claims to municipal records was up to 18 months overdue.
- **In Metropolitan Toronto, one Review Officer was responsible for conducting file and eligibility reviews of some 38,000 Welfare recipients receiving, in total, over \$14 million in Assistance per month.** Clearly, one Officer could not perform sufficient work to provide the necessary assurance that Metropolitan Toronto had an

## Comments on Ministry Audits

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### **adequate system in place to ensure only eligible recipients received General Welfare Assistance.**

An internal study of Review Officer positions and workload, recently conducted by the Toronto Area Office, reported that:

- the job specification bears little resemblance to the actual job being performed; and
- present resources within the Area Office are insufficient to provide meaningful file reviews.

At present, the Toronto Area Office is reviewing the possibility of increasing its resources for monitoring GWA. We recommended that the Ministry's head office management conduct a province-wide review to ensure an equitable allocation of resources consistent with the case workload of each region.

#### *Lack of Standards for Review Officers*

The Ministry's Administrative Manual, which is supplied to Review Officers, provides a list of the types of tests to be conducted at each visit to a municipality or Indian Band. However, the Manual provides no guidance as to the number of such tests to be undertaken. Additionally, the Ministry has not established procedures for the documentation, reporting and follow-up on observations. **If Review Officers were required to report on common criteria**, statistics could be collected on information such as the number of files examined and the dollar effect of errors observed. **Comparisons could then be made between municipalities and conclusions drawn on the quality of administration of each municipality in delivering the GWA Program.**

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#### **Lack of Monitoring at Head Office Level**

**We noted that Ministry monitoring of the GWA Program was largely informal.** Written reports summarizing results of the examinations of municipalities were rarely prepared by the area Review Officers. In the few cases where reports were produced, they were not forwarded to the regional office and/or head office.

Head office received only statistical reports containing monthly caseload data for about 40 of the larger municipalities registered on the Municipal Assistance Information Network computer system. This system did not provide any indicators that reflected how effectively the municipalities were administering the General Welfare Assistance Act. For example, indicators relating to the percentage of applications approved, overpayments and recoveries, as well as input from the area offices regarding the degree of adherence to corporate policies by municipalities, would provide useful information to assist in the monitoring of the Program.

Given the Ministry's decentralized reporting structure, we felt that a better information system was needed at head office. **In discussions with senior management at head office, they acknowledged that better monitoring of**

## Community and Social Services

### General Welfare Assistance Program

**the Program was necessary.** We were informed that a Steering Committee had been established to review the need to develop and maintain a provincial monitoring process.

#### Better Controls Needed over GWA Drug Benefits

##### *Background*

Prescription drugs are provided free of charge to anyone receiving assistance under the Family Benefits Act and/or the General Welfare Assistance Act. A GWA recipient is issued a Drug Benefit Eligibility Card which is automatically produced as part of the monthly welfare cheque. This computerized card contains the beneficiary's name, dependents' names, personal identification number and benefit period. Individuals joining the Program between computer cheque runs are issued cards manually by respective municipalities.

To obtain free drugs, a recipient presents his/her card to a pharmacist, along with a doctor's prescription. The pharmacist retains the card and submits a claim which is reimbursed by the Ministry of Health. Each month, the Ministry of Health invoices the Ministry of Community and Social Services for the amount of drug claims paid. In the 1988 fiscal year, the Ministry of Community and Social Services made payments totalling \$25 million for prescription drugs provided to GWA recipients.

##### *Weaknesses in Controls over Drug Benefits*

Our review disclosed:

- **The Ministry could not verify billings from the Ministry of Health to ensure that only eligible GWA recipients received free drug benefits.** Rather, they relied on the work of the Drug Programs Branch at the Ministry of Health, which was responsible for the administration of the Province's Drug Benefits Program.

We were advised that the Drug Programs Branch used a computerized matching process to verify that drug benefits were only provided to eligible recipients under the Family Benefits Act. This process allowed them to compare the personal identification numbers recorded on pharmacists' claims to those recorded on the Ministry of Community and Social Services's computer system. Such a process has not been available for drug benefits paid to GWA recipients. Branch staff, therefore, visit pharmacists to check that claims submitted are supported by Drug Benefit Eligibility Cards. However, such checks would not provide assurance that the cards were validly issued.

We were informed that the Income Maintenance Branch of the Ministry was discussing ways to improve controls over the GWA Drug Benefits Program with the Drug Programs Branch of the Ministry of Health.

- **The safeguarding of blank drug cards was inadequate.** We noted during our visits to three municipalities that an excessive number of blank

## Comments on Ministry Audits

cards were on hand and controls were weak regarding the numbering, storage and issuance of these cards to field workers.

For instance, we noted that Metropolitan Toronto handles approximately 7,000 blank cards per month. **Municipal caseworkers can requisition a supply of blank cards for new recipients, yet no record is maintained as to who requests the cards and how many are issued.**

**The lack of procedures to safeguard blank drug cards could result in unauthorized use going undetected.** Any individual in possession of a blank card and a doctor's prescription could obtain free prescription drugs by filling in his/her name and a fictitious number on the card. Neither the pharmacist nor the Ministry of Health would be able to detect an ineligible personal identification number.

The Comprehensive Audit and Review Branch of the Ministry expressed similar concerns in 1987 during their audits of two municipalities.

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### Social Assistance Review Committee

In July 1986, the Ontario Cabinet appointed a Social Assistance Review Committee to make recommendations for a thorough overhaul of the income maintenance system. The Committee examined:

- what the guiding principles and objectives of social assistance and related programs should be;
- to what extent the present system is meeting these objectives;
- what overall strategies for change the Province should adopt; and,
- what parameters the Province should accept as it moves to change its legislation.

The Ministry expected the Committee to issue its findings and recommendations to the Minister by September 1988.

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#### RESPONSE

We received the Deputy Minister's response on September 22, 1988.

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#### MONITORING

##### **Weaknesses in Review of GWA Claims**

*"... review officers carry out regular visits to municipalities and Indian Bands. The frequency of the visits is dependent on available staffing and local environmental needs. The matter of establishing more comprehensive standards for the scope of examinations and subsequent documentation for follow-up will be addressed.*

## Consumer and Commercial Relations

### Vital Statistics Information System

*"The Ministry agrees that both the staffing levels in the GWA review process and the job specification of review officers require evaluation. Action will be taken to achieve this through secondment of staff with the appropriate knowledge and expertise in the area of program review.*

*"With regard to the particular situation in Metro Toronto, four review officers are now in place."*

#### **Lack of Monitoring at Head Office Level**

*"... improvements can be made in coordinating the head office monitoring function for the GWA program. Head office staff meet regularly with the provincial program supervisors of Income Maintenance to discuss program changes and problems in order to ensure consistent understanding of how the program is to be delivered. As well, head office staff are in constant touch with program supervisors through the introduction of computer conferencing, which allows for a process of information-sharing across the province."*

#### **Better Controls Needed Over GWA Drug Benefits**

*"... negotiations are presently underway with staff of the Ontario Drug Benefit Plan to put in place a system of verifying eligibility of GWA drug-card users. These negotiations are progressing well, and the Ministry expects that a system similar to the one in place for FBA (Family Benefit Allowances) can be implemented in the near future.*

*"The Ontario Drug Benefit Plan presently receives up-to-date CIMS (Comprehensive Income Maintenance System) tapes for the small number of municipalities currently on CIMS. ... As of December 1989, it is anticipated that 80% of the General Welfare Assistance caseload will be on CIMS so that the Drug Plan will receive tapes weekly.*

*"With regard to concerns expressed in the area of security in the use of blank drug cards, a directive will be issued to municipalities asking that procedures be put in place to regulate the use and distribution of cards."*

### 3.4 Improved Security Needed, Vital Statistics Information System, Ministry of Consumer and Commercial Relations

The Ministry's Registrar General Branch is responsible for the administration and registration of the births, marriages, still-births, deaths, adoptions, divorces and changes of name that occur in Ontario. Services provided to the public include the issuance of certificates, certified copies of registrations, genealogical statements and search notifications.

## Comments on Ministry Audits

### SUMMARY

#### SCOPE AND OBJECTIVE

Our audit focused on the operation of the Vital Statistics Information System used by the Registrar General Branch, including an assessment of the controls to ensure the security and privacy of personal data.

#### CONCLUSION AND FINDINGS

##### *SECURITY AND PRIVACY OF PERSONAL DATA*

Security controls over information stored on the Vital Statistics Information System data bases at the main computer centre were satisfactory. However, control over the security and privacy of personal information held by the Branch required strengthening. Specifically:

- . storage and handling of Branch records did not meet minimum standards;
- . information concerning adoptions was not secure;
- . copies of personal information were disposed of improperly; and
- . file room doors were left unlocked.

### COMMENTARY

#### Background

Original registration records of births, deaths and marriages that have occurred in Ontario from 1869 to the present are maintained by the Registrar General Branch. Over 343,000 events were registered in 1987 and approximately 500,000 requests from the public were processed.

##### *SECURITY AND PRIVACY OF PERSONAL DATA*

Particularly in light of the personal nature of the information that is registered and maintained by the Branch, it is essential that the data remain secure. The details of each registration or updated information should only be released to authorized individuals in compliance with the Freedom of Information and Privacy Act, 1987.

We examined the security controls over the information that was stored on the Vital Statistics Information System data bases at the main computer centre and determined that these were satisfactory. However, we observed some environmental and security shortcomings. The following are our specific observations.

#### Archival Standards Not Met

The main file room of the Branch contains approximately 40,000 bound volumes of original registration documents. These are frequently referred to by various Branch staff. During the final stage of processing a registration, a microfilm copy

## Consumer and Commercial Relations

### Vital Statistics Information System

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of all documents is made. The microfilm copy is a back-up record and is also used for reference on occasions when the original document is not available. Access between the adjacent microfilm and main file rooms is unrestricted.

With the assistance of the Head Conservator of the Archives of Ontario we reviewed the physical environment in which the original records and microfilm are handled and stored. **We were advised that the storage and handling facilities were inadequate and did not meet the minimum archival standards set by National Standards of Canada and by the American National Standards Institute.** The minimum standards would protect the records, on a long-term basis, from deterioration caused by environmental factors, such as poor air quality, exposure to variable temperature, humidity, dust, etc.

Branch management stated that they were aware of the deficiencies and will address them in their Branch Relocation Master Plan.

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#### Adoption Information Not Secure

Branch procedures require that original documents concerning adoptions be kept in sealed envelopes under lock and key. Prior to Branch staff obtaining any adoption information, the specific authorization of the Deputy Registrar General is required. However, **the computer listings containing information on all Ontario adoptions were not secure.** Preliminary information could be obtained on any adoption by reviewing the computer listing and locating the relevant documentation in the records file room.

We recommended that all information which may be used to trace adoption particulars be treated as confidential.

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#### Improper Disposal of Personal Information

If the photocopies of personal documents made by Branch staff are blurred or misaligned, they are discarded into the regular garbage containers. **During the audit we retrieved legible photocopies of personal information, including confidential adoption records, from these containers.**

We recommended that unused copies of personal information be treated as classified waste and shredded before being disposed.

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#### File Room Doors Left Unlocked

We observed that one of the doors to the file room which contains the original registration records was unlocked both during business and non-business hours. This door provided access to one of the main public corridors of the MacDonald Block in the Queen's Park complex. In addition, **the door to the microfilm area was usually left open during the day.** We were advised that this door had to be left open to disperse film processing odors because the room did not have an exhaust fan.

## Comments on Ministry Audits

We recommended that these doors be kept closed and locked, and that an exhaust fan be installed to properly ventilate the microfilm room.

### RESPONSE

The Deputy Minister's response to our comments and recommendations is as follows:

#### SECURITY AND PRIVACY OF PERSONAL DATA

##### **Archival Standards Not Met**

*"The program requirements for the (new) building in Thunder Bay have identified environmental requirements for the storage and handling of original and microfilm records."*

##### **Adoption Information Not Secure**

*"The computer listings containing information of Ontario adoptions are available to staff who have taken an oath of secrecy, as is all other confidential information. These listings are secured in locked storage."*

##### **Improper Disposal of Personal Information**

*"Procedures were in place for mass destruction of classified waste. However, in the isolated case that the auditor referred to, unused copies of records were not destroyed in the prescribed manner. Unused copies will be treated as classified waste and procedures for the systematic destruction of these records have been installed."*

##### **File Room Doors Left Unlocked**

*"Doors to the record room have self-loading latches. Employees may exit these doors but they are kept locked so that no one can enter by them."*

*"An exhaust fan will be installed in the microfilm room as soon as possible."*

### 3.5 Better Monitoring Required, Community Facilities Improvement Program, Ministry of Culture and Communications

The Ministry's Community Facilities Improvement Program was launched in April 1985 and used Wintario lottery funds to provide financing for the improvement and development of cultural, multicultural and community facilities, for the conservation of heritage buildings, and for the support of archaeological projects. The Program ended on March 31, 1988, and has been replaced by the Cultural Facilities Improvement Program.

About 500 grants had been awarded since the Program's inception with grant expenditures and commitments for the three-year period totalling \$56 million.

## Culture and Communications

### Community Facilities Improvement Program

#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit of the Ministry's Community Facilities Improvement Program included visits to 22 organizations which had received grants, totalling \$10 million, within the past three years.

Our audit objectives were to assess whether:

- . adequate controls existed to ensure only eligible projects were approved and funded by the Ministry;
- . the Ministry had an adequate monitoring process to ensure Program guidelines were followed by grant recipients.

#### CONCLUSIONS AND FINDINGS

##### *GRANT APPROVAL AND FUNDING*

**Controls to ensure only eligible projects were approved and funded were weak. We questioned whether sufficient consideration was being given before grants were approved and funds were provided.**

##### *GRANT MONITORING*

**Recipient contracts governing the use of the grant were well written. However, the Ministry did not have adequate monitoring controls to ensure that the terms of the contracts were followed by recipients.**

- . About 30 per cent of the 22 recipients we inspected had incurred expenditures that were not in accordance with Program guidelines.
- . Funds were re-allocated to meet the escalating costs of a major church restoration project.

#### COMMENTARY

##### **Background**

Any Municipality, School or Library Board, Indian Band Council or incorporated non-profit organization which delivered cultural or community services/programs was eligible to apply for a grant from the Community Facilities Improvement Program. Depending on the nature of the project, funding ranged from 33 to 75 per cent of the estimated eligible costs, as defined in the Program guidelines.

Grant applications were initially handled by staff in 14 regional offices throughout the Province. Once an application had been reviewed for completeness, it was sent to one of three Program branches at the Ministry's main office in Toronto. Staff in the Arts, Heritage, and Libraries and Community Information Branches were responsible for making recommendations on the grant applications and approving requests for payment.

## Comments on Ministry Audits

Individual grants exceeding \$250,000 were required to be reviewed by Management Board and approved by Cabinet. Additionally, with such applications, a feasibility study, including some assurance of long-term operating viability, was required.

The Ministry made interim payments to the applicants of up to 85 per cent of the approved grant, based upon a statement from the applicant certifying the stage of completion of the project. The final payment of the remaining 15 per cent required submission of supporting documents such as invoices and audited financial statements.

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### GRANT APPROVAL AND FUNDING

**From our review of files pertaining to 22 grant recipients, we noted that applications had not been adequately evaluated to ensure that only eligible projects were funded by the Ministry.** For example:

- Two of the terms and conditions for a grant required that a building had to be a cultural, multicultural or community facility and that it be open to the public at all reasonable times. **The University of Toronto received a grant for \$100,000 in 1986 to expand its printing warehouse.** We questioned how a warehouse could be considered as a cultural or community facility available for general public use.

We noted that ministerial discretion was exercised to fund the project. The approval was given to enable the recipient to expand distribution services to Canadian-owned and controlled publishing houses located in Ontario.

- In 1986, the Ministry approved a grant of approximately \$214,000, representing about 75 per cent of the estimated total cost, for an archaeological research project by an Indian Band Council. An interim payment of \$150,000 was made to the Council at that time.

We noted that **the application included over \$100,000 of costs relating to a previous project.** As such, under Program guidelines these costs should have been deemed ineligible by the Ministry. However, **the Ministry failed to question the eligibility of these costs although they had been clearly identified in the application.**

- During 1985 and 1986 the Ministry paid grants totalling \$650,000 to a community centre located in North Bay. These grants were for the renovation of a 1,000 seat theatre into a community arts centre expected to cost approximately \$2.4 million.

Prior to the approval of this application the Ministry had provided grants of \$18,000 towards two feasibility studies by a firm of consultants. **The first study examined the possibility of converting the theatre into an arts centre but did not address the operating viability of the project. Such an assessment had been specifically required.** The second study concluded that enthusiastic support had been expressed by the majority of people interviewed but again did not come to any firm conclusion about the future financial viability of the project. In fact, our review of the study

## Culture and Communications

### Community Facilities Improvement Program

indicated that most of those interviewed at that time had expressed concerns as to the ability of the community to support annual deficits any larger than \$50,000.

**We did not find any written evidence that the above concerns had been adequately considered by the Ministry before approving the grants.**

We further noted that the centre incurred an operating deficit of \$99,000 in 1987 compared to an operating surplus of \$600 in 1986. The deficit occurred despite a significant increase in funding from the City of North Bay.

In discussing our concerns over project evaluation, we were advised that the Ministry had strengthened its grant evaluation process. More specifically, a prioritizing system for the new Cultural Facilities Improvement Program has now been implemented.

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#### GRANT MONITORING

##### Good Contractual Arrangements with Recipients

All grant applicants had to complete and sign standardized applications which served as binding contracts once the Ministry had approved each grant.

**We found the contracts to be complete and well written.** The terms and conditions of these documents, if followed, would have been adequate to ensure that grants were properly spent. They also provided good recourse for recovery of funds if the recipient failed to abide by one or more of their requirements. However, we noted that **there had been little ongoing monitoring by the Ministry of the eligibility of grant expenditures made by the recipients.**

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##### Overpayments and Ineligible Expenditures Noted

**Our visits to 22 grant recipients disclosed instances of overpayments and ineligible expenditures in about 30 per cent of the cases. For example:**

- In 1985, the Ministry approved an application from a London area Separate School Board to perform heritage restoration work on a former school. Project costs were estimated at \$818,000, of which \$409,000 was approved and paid by the Ministry in two instalments, \$348,000 in 1986 and \$61,000 in 1987.

Our visit to the school showed that **the actual expenditures for eligible items were significantly less than had been originally estimated. As a result, we concluded that the Ministry had overpaid the School Board by approximately \$240,000.** For example, in one case, the application showed that the school's windows would be restored at a cost of approximately \$210,000. However, the Board only spent \$18,000 to repair the windows. In another case, a new roof was to be installed at a cost of \$108,000. We noted that, except for minor repairs, this work had not been carried out.

## Comments on Ministry Audits

In 1986, the School Board submitted a second application requesting an additional grant in the amount of \$263,000 relating to a second phase of the restoration project. **We noted that many of the specified items on this second application were identical to those funded under the first phase of the project, including the installation of a new roof.** The Ministry's regional staff indicated that, after consulting with the Heritage Branch, the application had been recommended for head office approval. However, during the final stages of our audit, we were advised that the Ministry will not be approving this application until all work relating to the first phase of the project has been completed.

- The University of Western Ontario, on behalf of its affiliate, the Museum of Indian Archaeology, applied for a grant in 1985. The University indicated that the Museum proposed to perform an archaeological excavation of an Indian village and to prepare an exhibit of the artifacts that were unearthed. Out of estimated total project costs of \$320,000, the Ministry approved a grant of \$240,000. To date, the Ministry has paid \$204,000 to the University.

**We noted that the application for the grant failed to mention all of the funding received from other sources.** For instance, we noted that at the time of application the Museum had already received a commitment of funds of \$150,000 from a company towards the project. **As a result, we concluded that the Ministry had overpaid the University since the approved grant would have been for a lesser amount had the University provided full details of this other funding.**

We referred our concerns to management. The Ministry's Internal Audit Branch investigated and recommended that the final grant payment of \$36,000 be withheld and repayment of \$80,000 be requested from the University. We noted that the Deputy Minister responded promptly by writing to the University asking that the sum be returned to the Ministry at the earliest opportunity.

- As noted previously, in respect of the archaeology research project for \$214,000 by an Indian Band Council, the Ministry had made an interim payment of \$150,000 in 1986. At the time of our visit in February 1988, we noted that cumulative expenditures on the project totalled \$51,000. We found certain payments of a questionable nature included in this amount. For example:
  - **The Council paid invoices totalling approximately \$10,000 for the services of two full-time and two part-time training staff provided by an archaeological society. In examining these invoices we noted that two of the four staff were full-time Ministry employees.** We were informed that one of the employees had provided free services to the society while the other employee had never participated in the training program. Under the circumstances, we questioned the accuracy and propriety of the society's billings.

## Culture and Communications

### Community Facilities Improvement Program

- Travel expenses totalling \$1,000 for a Council member to attend an accounting course were incorrectly included as eligible costs.
- Per diem payments to Council members, totalling \$2,000, to attend Council Committee meetings that were unrelated to the project were also charged to the project. Under Program guidelines, meeting expenses were specifically disallowed.

We recommended that the Ministry strengthen its monitoring controls. This should include periodic on-site review of pertinent records supporting claimed expenditures, particularly for large grant recipients.

#### Re-allocated Church Restoration Costs

In 1986, the Ministry approved a grant of \$706,000 for the restoration of a historical church constructed between 1852 and 1875 in Hamilton. The work, expected to be completed by 1989, was to be performed in two areas, the Cathedral and the Parish Hall, both located in one building. Costs were estimated to total \$1.4 million. In March 1987, the Ministry paid \$494,000 to the Church representing 70 per cent of the approved grant. As of our inspection visit in February 1988, this was the only amount that had been paid to the Church by the Ministry.

We had concerns regarding this project:

- To date the majority of project payments have been to the architect and a masonry contractor. At the time of receiving payment of \$494,000 from the Ministry, the Church had indicated that the work had been competitively selected. However, our examination showed that both the architect and the contractor were not competitively selected.

We were informed by the architect that the masonry contractor was not selected competitively due to the specialized nature of the work. However, during our visit to another grant recipient we noted that work involving restoration of a historical building had been tendered. Also, in speaking with Ministry staff, they indicated that the project could have been tendered.

- There was no evidence of a written contract between the Church and the architect. Except for one contract covering a small portion of the work, there was also no evidence of a signed contract between the Church and the masonry contractor.

Furthermore, **the arrangement between the Church and the masonry contractor was without a fixed price.** The masonry contractor, who as of January 31, 1988 had been paid \$570,000, was charging for his services on a "cost plus" basis. We question the propriety of such an arrangement as, without a ceiling price, cost increases would be difficult to control.

- In December 1987, the Dean of the Church informed the Ministry that there had been an overrun in the cost of the Cathedral restoration. He advised that **the cost to restore just the Cathedral would now be**

## Comments on Ministry Audits

about \$1.5 million. Therefore, he requested permission from the Ministry to apply the entire grant of \$706,000 towards the cost to complete the restoration of the Cathedral by March 31, 1989. Permission was granted by the Ministry in January 1988.

In 1986, when the Ministry approved the grant of \$706,000, it was made up of two components: \$530,000 towards restoration of the Cathedral and \$176,000 towards restoration of the Parish Hall. Therefore, permission to divert funds, initially earmarked for different work, was questionable.

### RESPONSE

The Deputy Minister's reply was received on October 14, 1988.

#### GRANT APPROVAL AND FUNDING

*"As the report noted, the Ministry introduced a number of programme revisions, effective April 1, 1988, which are aimed at making more effective use of available resources and providing a better basis for selecting among competing projects. These changes include having a number of clearly stated grant categories reflecting ministry and client priorities, introducing three grant competition periods per year, and establishing the grant maximum for construction projects at the lesser of one-third of the eligible costs or \$1 million. The revised programme will provide staff with the basis for assessing applications more rigorously.*

*"The Ministry is pleased to note that the report found the grant contracts and terms and conditions to be well-written and adequate to ensure that grants are properly spent. These terms and conditions provide for progress payments, upon application by the client, at specified points throughout the project, and a full review of the financial accounting before the final payment is issued. The Ministry notes, however, that a number of the projects selected for audit were still in progress, and that the Ministry's complete financial review which occurs upon the project's completion had not yet taken place.*

*"Notwithstanding the (preceding), the Ministry will consider means of monitoring more strongly recipients' accountability, particularly in the case of grants over \$100,000. We shall address such elements as :*

- methods by which clients can ensure adequate budgeting at the outset of a project and maintain overall cost control throughout (e.g. employing the services of a quantity surveyor);*
- methods of ensuring clients' adherence to grant terms and conditions as the project proceeds (e.g. interim financial reporting);*
- developing a programme for review of recipient accountability which would include inspections by programme staff, as well as audits by the Internal Audit Branch.*

*"In finalizing approaches to these issues, the Ministry will strive to achieve a balance between the need to ensure programme accountability and the limitations imposed by the number of Ministry staff. In addition to these general comments, we offer the following specific comments on projects cited in the report:*

## Culture and Communications

### Community Facilities Improvement Program

#### *Printing Warehouse*

*"As the report noted, ministerial discretion was exercised to fund the expansion of the printing warehouse of the non-profit University of Toronto Press, although it did not meet the criterion of accessibility to the public. The project allowed the recipient to expand distribution services to small Canadian publishers, thus increasing the availability of Canadian books throughout Ontario. It was the recommendation of Ministry staff that the Minister exercise her discretion to fund the project because it met the overall programme objective of improving delivery of an existing cultural service and this consideration outweighed the marginal ineligibility of the application."*

#### *Indian Band in Southwestern Ontario*

*"The report stated that part of this application related to a previous project and should have been deemed ineligible. The Ministry does not agree that there were two separate projects. The client initially planned a smaller project but, after some limited preliminary work, the scope was expanded and an application was made under CFIP for the enlarged project. Since the enlarged project met the CFIP criteria, the grant was approved. The Ministry acknowledges that minister's discretion should have been exercised to fund that limited portion of the project undertaken before the application was submitted formally."*

#### *Community Arts Centre*

*"The Ministry acknowledges the points raised in the report. More rigorous conditions relating to the overall feasibility of projects were introduced when CFIP was revised April 1, 1988."*

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#### GRANT MONITORING

### **Overpayments and Ineligible Expenditures Noted**

#### *London Area Separate School Board*

*"The Ministry is working with the recipient to ensure completion of phase one of the project. The application received in November 1986 has not been approved and further funding will not be considered until the first phase is complete."*

#### *University of Western Ontario*

*"The audit of this project identified the fact that the application for the grant failed to mention all of the funding received from other sources for the project. The report noted the prompt action on the part of the Ministry when the audit findings were brought to our attention. The Ministry is continuing to pursue this matter with the client."*

#### *Indian Band Council in Southwestern Ontario*

*"The audit of the project in process found that expenses are being charged to the project which may not be eligible for grant funding. With reference to the specific matter of the training programme, the Ministry would like to reiterate that no Ministry staff received payment for services provided. The Ministry notes the findings and will give them careful consideration during the financial review at the conclusion of the project, should the applicant, in fact, claim these expenses for a grant payment."*

## Comments on Ministry Audits

### **Re-allocated Church Restoration Costs**

*"The Ministry agrees that the project has experienced financial difficulty. Staff have been actively involved in efforts to mitigate the situation. As part of that consultation, the Ministry agreed to re-negotiate the definition of the project to ensure that the elements most essential to the preservation of this historically important church would be completed without increasing the size of the grant. The Ministry judges the re-negotiation to be a realistic option in dealing with clients in exceptional circumstances."*

### **3.6**

#### **Development and Implementation Concerns, Computers in Education Initiative, Ministry of Education**

The Ministry's Computers in Education initiative was created to develop and integrate microcomputers and educational software into the curriculum of Ontario's 1.8 million students.

Total expenditures for the initiative since its inception in 1980 have been \$131 million, with expenditures for the 1988 fiscal year totalling approximately \$48 million.

#### **SUMMARY**

#### **SCOPE AND OBJECTIVE**

Our audit examined the initiatives of the Ministry's Computers in Education Centre (Education Centre), as well as related activities of the Ontario Educational Communications Authority (TVOntario) and the Software Development Assistance Centre (Assistance Centre) at the Ontario Institute for Studies in Education. We also visited some 20 school boards and 40 schools, interviewing Directors of Education, Superintendents of Curriculum, Principals, Teachers and other staff.

We reviewed the results of the Ministry's sponsorship of an "ideal" microcomputer for Ontario's education system and assessed the adequacy of the Ministry's role in:

- . the acquisition, development and licencing of educational software for the computers in use in schools; and
- . the process and status of implementation of computers into the classroom.

#### **CONCLUSIONS AND FINDINGS**

#### **SUITABILITY OF COMPUTERS SELECTED**

The problems created by the unique and advanced features of the sponsored computers have limited the overall effectiveness of the Ministry's Computers in Education initiative. Specifically:

- . They are incompatible with others in the marketplace and, therefore, any existing educational software is unusable.
- . The Ministry's incentive grants have encouraged school boards to purchase the sponsored computers when less expensive machines would have met most of their needs.

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### Computers in Education Initiative

- . The relatively high cost of the sponsored microcomputers has resulted in limited and varied access to computers for students and Teachers across the province.
- . The Government's objective to create a Canadian computer and software industry has not materialized.

#### *SOFTWARE DEVELOPMENT AND LICENCING*

Although some good software programs have been developed for the Ministry-sponsored computers, the software development and licencing process has been less than satisfactory. Specifically:

- . Some development and licencing efforts have been wasted because school needs were not properly assessed.
- . There have been significant delays in the approval of software development projects.
- . The field testing of software prior to distribution to schools was very poor.
- . No effort has been made to support software acquisitions for computers not sponsored by the Ministry despite the fact that such computers constitute 74 per cent of all computers presently in schools.

#### *IMPLEMENTATION*

The Ministry's efforts have focused primarily on the development and distribution of computers and software.

- . Inadequate emphasis has been placed on their effective implementation in the classroom.
- . The training of Teachers in the use of computers in the classroom has been generally lacking.
- . Insufficient research into the effectiveness of computers in educating students has been conducted.
- . If this ambitious initiative is to be achieved in a cost-effective manner, important decisions are needed now.

#### COMMENTARY

##### Background

In the late 1970s, the Ministry recognized the potential for computer technology to improve learning and influence the way we educate students. The ultimate goal of the Ministry was for every student to have access to 30 minutes of computer time daily in a variety of curriculum areas by 1996. However, the Ministry was not satisfied with the educational quality and suitability of computers and software existing at that time. They also felt that having a standard microcomputer rather than multiple brands would make it easier to supply good quality educational software to the schools. Therefore, in 1981,

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consistent with the Government's interest in developing an Ontario-based hardware and software industry capable of competing in the international marketplace, the Ministry set out to determine the "ideal" microcomputer.

Total expenditures for the initiative by the Ministry for the eight-year period to March 31, 1988 were as follows:

|  | (\$ millions) |
|--|---------------|
| Research, development and field testing                              | 4.3           |
| Incentive grants to school boards for the purchase of microcomputers | 96.9          |
| Educational software   | 24.9          |
| Other direct expenditures  | <u>4.9</u>    |
|  | <u>131.0</u>  |

These expenditures do not include purchases by school boards of computers or software not sponsored by the Education Centre.

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### *SUITABILITY OF COMPUTERS SELECTED*

#### **Overview**

According to the Ministry, the ideal educational microcomputer had to impose the fewest possible limitations on the educational quality of the software; be capable of supporting a student's personal, creative exploratory use; be powerful enough to be used easily by young children; and, be usable as an independent microcomputer or in a network of linked machines. Consequently, it had to be a microcomputer with graphics and voice synthesis capabilities that could run a stated group of languages.

An Ontario-based company received a grant of \$2 million from the Ministry of Industry, Trade and Technology to develop the required microcomputer. The Ministry of Education guaranteed an order for \$8 million if the resulting microcomputer successfully met its ideal requirements.

In April 1984, the ICON/LEXICON system was approved to become the first Grant Eligible Microcomputer System (GEMS). Due to parts shortages, the first of these computers were not delivered to schools until early 1985. Late in 1985, IBM also brought forward the EDNET system for testing. It was approved as the second system in early 1986.

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#### **Unique Design Has Added to Costs and Delayed Implementation**

**Schools that had already acquired computers and educational software could not run this software on the GEMS.**

**The unique features of the approved microcomputers made them incompatible with others on the market.** To compound the problem, the ICON/LEXICON system is incompatible with the IBM EDNET system. This has delayed acceptance and use of the computers in schools and added to the cost of implementation. For example, the Ministry spent \$260,000 to translate just five software programs developed for the ICON so that they could be used on EDNET.

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In addition, since software developers were not interested in writing programs for such a select market, further costs and delays were incurred as the Ministry provided funding to the private sector to develop appropriate software. Despite this effort there are still significant curriculum areas for which there is no available software.

#### Less Costly Alternatives Exist to Meet Board Needs

The Ministry has continued to support Government objectives to encourage the development of a domestic-based manufacturing industry by requiring that 60 per cent of the selling price of GEMS be "Canadian content". This Canadian content requirement has discouraged flexibility in reducing the price of computer equipment.

The trend in the marketplace has been for computers to offer increased capabilities at ever decreasing prices. Although the price of GEMS has decreased since their introduction, these declines have been much less than industry experience generally. Thus the GEMS have become an increasingly costly alternative for school boards.

Decisions regarding the procurement of computers, software and their integration into classroom activities ultimately rest with the 182 school boards, not with the Education Centre. **To encourage the purchase of expensive, albeit more powerful GEMS, the Ministry provided incentive grants averaging 75 per cent of the cost. This made it cheaper for boards to buy GEMS even when in some situations less sophisticated machines would meet board needs.** However, the fact that only a few boards have acquired the sponsored systems once their grant funds had run out clearly indicates that on a cost-for-value comparison, GEMS were perceived by boards as being overpriced. A significant factor contributing to this perception is that **it was not until early 1987 that two software programs were released that required the full capabilities of the GEMS.**

Another factor in the buying decisions of boards is the shortage of computers in general. Almost all boards surveyed stressed that shortages of computers are holding them back. Many of them are still buying at least some cheaper, less powerful systems to help increase their computer inventory more quickly.

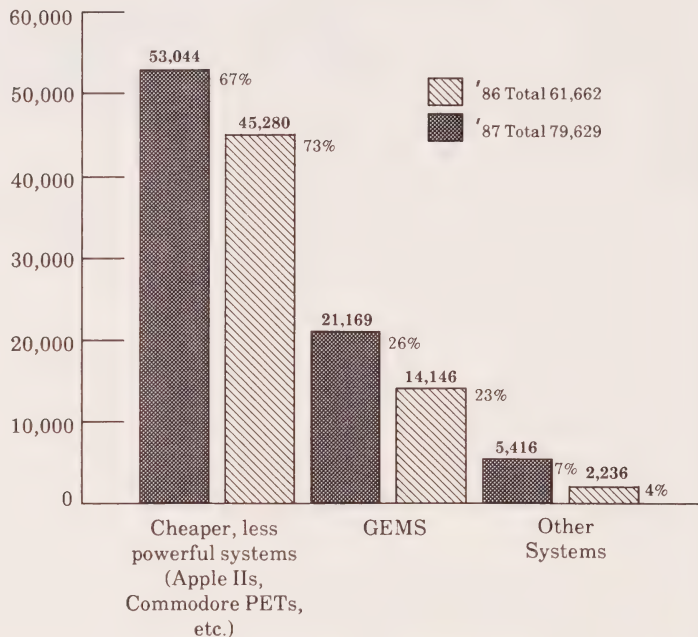
Some boards have pursued alternatives despite the Ministry's funding assistance for GEMS. For example, a school in Milton has arranged to obtain up to 100 free microcomputers from a non-sponsored vendor over a four-year period with the intention of integrating the computers, the software and Teacher training into the curriculum. The vendor hopes to develop a good implementation plan to promote commercial success of their products. Such mutually beneficial arrangements with the private sector should be explored further.

In light of such alternatives, many boards expressed the wish that the Ministry also support computers and software of other common vendors. As indicated by the following chart, there are many different computers and software already in

## Comments on Ministry Audits

schools. It is, therefore, unlikely that the Ministry will ever achieve its original objective of complete standardization of computers. Hence the compatibility problem will remain.

### Inventory of Microcomputers in Ontario Schools



The high cost of providing special grants to encourage purchases of the sponsored Microcomputer Systems also has significant implications for the future. The Ministry expects to achieve a 1:7 ratio of computers to students by 1996, (about thirty minutes of access time per day) with a ratio of 1:10 in GEMS and the remainder in less powerful micros. **For current enrollment, some 160,000 more computers would be required to achieve this long-term target. We estimate that computer costs alone will be at least \$650 million to achieve a 1:10 ratio in GEMS at current prices.**

In order to make the most cost-effective decisions on what computer equipment to buy, boards need more objective assistance from the Ministry. Boards could then obtain a more economical mix of less costly, less powerful micros with more expensive, more powerful computers, including the GEMS. Also the Ministry should review its present funding policy for computers and software with a view to ensuring it encourages the best use of tax dollars.

## Education

### Computers in Education Initiative

#### Student Access to Computers Varies Widely among School Boards

Given limits to funding, encouraging the purchase of more expensive computers will continue to limit student access to computers. In 1986, there was one computer for every 29 students. This means each student had, on average, only ten minutes per day with a computer. In 1987, the ratio improved to one computer per 23 students, which provides about fifteen minutes per student per day.

However, the current ratio of 1:23 is misleading, **since access is not evenly distributed throughout the educational system.** For example, boards have tended to allocate most of the computers to secondary schools, and particularly to computer studies. A student not taking business, technical or computer studies may never use a computer throughout high school.

Elementary usage tends to be in a wider variety of curriculum areas, in accordance with Ministry guidelines, but the overall average ratio here is worse at only 1:28 (only 10 minutes per student per day).

Research has indicated that even very young children can benefit from exposure to computers and that the younger they are when they start, the more likely they are to be completely comfortable with using the technology.

#### Industry Development Objectives Not Met

Originally, the hardware and related operating systems for GEMS were developed and produced domestically. However, while the fileserver is made in Ontario (about 500 units annually), the ICON workstations are now made entirely in Korea.

Recently, at IBM's request, the Ministry, in conjunction with the Ministry of Industry, Trade and Technology, changed the method of determining Canadian content such that, in future, vendors may move all production out of the province without danger of losing their status as manufacturers of the GEMS, provided they still maintain a Canadian presence. Accordingly, the establishment of an Ontario manufacturing base is unlikely.

In addition, the ability of the GEMS to significantly penetrate the educational marketplace outside the province is dubious. Although Quebec and a few states in the U.S. (such as Maryland) are testing ICONS, none has committed to any large purchases yet. Manitoba and Saskatchewan are buying some for school use, but again no major commitments have been made.

**Growth prospects for software development are much the same since developers would prefer to create software with much larger market potential, regardless of the assistance received from the Ministry.**

## Comments on Ministry Audits

As the recent Report of the Premier's Council stated: "because insufficient attention was paid to developing specifications for the hardware and software to enable it to be sold outside Ontario, and because no software firms were developed of a scale sufficient to serve export markets, the entire development effort was a botched opportunity for the Province".

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### SOFTWARE DEVELOPMENT AND LICENCING

#### Overview

By 1996, the Computers in Education Centre hopes to have distributed several hundred programs, either by developing them specifically for Ontario or by procuring available commercial programs through licencing arrangements. As of May 1988, there were 115 pieces of software available for GEMS. However, due to changes in technology and curriculum, the average useful lifespan for educational software is about five years and accordingly new programs will constantly be needed.

The Ministry has paid the full cost of software development and obtained licences to use the software across the province. The developer retained all other rights to the product. Typically, software developers were invited to bid on proposed programs. If a good product is developed and broad usage results, the unit cost to Ontario can be significantly less than the cost to acquire licences for commercial software. Furthermore, such software can be tailored to meet the specific needs of the Ontario curriculum.

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#### Some Good Software Developed

The general consensus from our survey of school boards was that the quality of Ministry-developed software has significantly improved and is good in most categories. **Over 60 per cent of Computer Co-ordinators in our survey felt that the software distributed was generally of good or excellent quality. Ninety per cent thought the software was at least average.** The 1987 Minister's Council on Educational Technology report also recognized that "some good quality software specific to the Ontario curriculum has been developed".

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#### Some Development and Licencing Efforts Poorly Planned

Approximately \$2.1 million has been spent on development projects which were never successfully completed. As well, early software development efforts were haphazard because of the emphasis on hardware, lack of experience in software development, and time pressure to provide software for GEMS. As a further consequence, in order to create goodwill with the early software developers, the Ministry was lenient regarding product delivery.

Despite the inevitable problems associated with the development of a new initiative, **some efforts have been wasted because the needs and priorities of schools were not properly assessed at the planning stage.** For example, the Ministry has spent over \$2 million in licencing fees for programs for the ICON

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without properly assessing need. These programs translate students' programs into computer language. They are used primarily for computer studies at secondary schools. However, the Ministry continues to purchase the licences for all ICON sites, even though 44 per cent of ICONs are in elementary schools. In fact, staff at elementary schools often erase the programs to free space in the fileserver for other programs. The cost of providing these programs to elementary schools has been over \$800,000 to date.

In another case, by rushing to meet demand, **the Ministry released a defective piece of spreadsheet software for the ICON.** Staff at 14 of 20 school boards visited complained about the quality of this spreadsheet. One Computer Coordinator called it an "abomination" while one Director of Education said that it was "frustrating and jeopardizes the entire initiative". Despite such reactions, the Ministry arranged to obtain licences to use the software on the EDNET system and continues to pay for site licences for each new EDNET system placed in a school.

### Significant Delays in Approving Projects

An examination of 27 software development contracts approved after April 1986 revealed that :

- only eight projects took under six months to approve after submission;
- 15 projects took between 6 and 12 months to approve;
- four took over a year to receive approval; and
- one of the contracts did not receive approval for 21 months.

The Education Centre has not examined why the proposal submission and approval phase takes so long. However, **the objective of creating an Ontario educational software development industry is seriously jeopardized by excessive delays in approving proposal submissions for new software.** Officials of the Software Development Assistance Centre warned in their 1987 annual report that experienced developers would be lost because of delays and uncertainty. As experienced developers are lost, quality will decline and the time required to develop new projects will lengthen.

### Field Testing Ineffective

Field testing represents between 15 and 20 per cent of the cost of a project and is supposed to ensure that a product is relatively error free and the content is suitable for release. This is essential if the programs are to be accepted and used in schools.

In accordance with an agreement, TVOntario is responsible for the final screening of software prior to its release, for duplication of the software, and for distribution to the school boards.

**Between November 1986 and March 1988, TVOntario received 60 educational software programs, all of which had supposedly been field**

## Comments on Ministry Audits

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tested. They assessed only one as being ready for release to school boards. The other 59 programs were returned to developers for correction of errors. Some took months to correct and a few were still flawed when resubmitted.

Two Computer Co-ordinators in our school board survey complained about errors in the educational software they received. One noted that "damage has been done to the Ministry's initiatives due to the lack of quality control".

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### More Involvement Required in the Acquisition of Commercial Software

Despite no Ministry funding for the purchase of commercial hardware or software, 74 per cent of the microcomputers in use in schools were not GEMS. A recent study of 45 of the 182 Ontario school boards revealed that expenditures for commercial software had risen dramatically, from \$236,000 in 1982/83 to \$2.0 million in 1985/86.

Furthermore, all of the Computer Co-ordinators and 70 per cent of the Principals and Directors of Education we surveyed believed that the Ministry should attempt to obtain licences for more commercial software, particularly since they felt that the commercial software was comparable to the quality of much of the GEMS software. Even though 35 per cent of the respondents felt that the quality of commercial software varied considerably, some pieces were considered excellent. In the words of one Computer Co-ordinator, "you can always find software to fit the curriculum". Many boards believe the commercial educational packages that they are using have enhanced learning and can be updated readily as new software becomes available.

The Education Centre has already acquired or attempted to acquire certain existing programs under licence. A major limiting factor has been the desire to have software developed in Canada by Canadian authors. However, the Ministry has had some recent success and was attempting to acquire the rights to use certain software from the Quebec Ministry of Education.

With three quarters of the computers presently in schools not being GEMS, we anticipate schools will continue to make significant purchases of commercial educational software. The Ministry, in recognizing this, should routinely assess and inform school boards about the quality and curriculum suitability of packaged commercial software. Greater Ministry involvement may also reduce licencing costs.

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### IMPLEMENTATION

#### Overview

School boards are encouraged to have resource personnel consisting of board Co-ordinators and Teachers, who act as Site Administrators, to help Teachers set up equipment for class use, provide information on computer software, and offer training in the use of microcomputers and the integration of software into the curriculum.

## Education

### Computers in Education Initiative

#### Insufficient Emphasis on Implementation

The best examples of computer use in schools we visited were the direct result of the initiative and enthusiasm of a few individuals in those schools. However, **a number of significant factors have served to limit the ability of the school boards and the Ministry to effectively implement the initiative**, including:

- The availability of funds. Funding for implementation activities has been limited to approximately one per cent of total funding for the program (\$1.3 million up to 1987/88).
- Inadequate support materials for developed software. In our survey 75 per cent of Computer Co-ordinators and 60 per cent of Teachers indicated that the support materials included with the GEMS software were poor and, consequently, were seldom used.
- A lack of knowledge at the board and school levels of effective ways of providing training, implementation activities, and the most effective uses in the classroom.
- Insufficient technical support to handle the more complex computer-related problems or even minor repairs. For example, one board with some 5,000 microcomputers had only one Technician for the entire board. On average, 17 per cent of its networks were inoperative at any one time, leading to user frustration with the system.

Future progress depends on more being done to utilize already purchased equipment and materials. To that end, the Ministry has recently taken positive initiatives, for example:

- Lighthouse Projects and Regional Pilot Sites were created in selected school boards to improve implementation procedures and to illustrate some best uses for the computers. Approximately \$900,000 has been devoted to this initiative.
- In accordance with the November 1987 Speech from the Throne, a draft submission has been prepared requesting \$6 million over three years in support of both Teacher training and ways to assess implementation strategies and practices.

#### Teacher Training Support Inadequate

Successful implementation depends on Teachers being comfortable with the technology. Until very recently the Ministry has held the view that, as professionals, Teachers must take responsibility for maintaining professional competence. **Only \$72,000 had been spent by the Ministry for Teacher training.** Considering that there are 89,000 full-time Teachers in Ontario, this works out to less than one dollar being spent on each Teacher.

## Comments on Ministry Audits

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**Much more has been spent by the Province's 182 boards but efforts to date have not been very systematic or comprehensive.** Most of this training has been provided through publicly available courses and in-house workshops. **These courses and workshops are taken voluntarily, often at the Teacher's own expense and are not necessarily directed towards the educational environment.**

Our review of these sources of professional development revealed that **professional development policies vary widely among school boards. Furthermore, courses are not offered everywhere in the province and most local course instructors are unfamiliar with the GEMS and the Ministry educational software.**

A further impediment is the lack of portability of GEMS. Without portable machines and diskettes, it is more difficult for Teachers and students to practice at home and become more comfortable with the technology.

One result of the foregoing is that few Teachers have experience with commonly used educational software. As well, **90 per cent of all respondents stated that they used the software programs only as a supplement to their lessons** despite Ministry intentions that it be an integral part of the lesson.

Given limited funding for implementation activities, an effective and affordable Teacher training model needs to be developed with leadership from the Ministry and commitment from the boards. We recommended that the model concentrate on training those Teachers who are most likely to benefit and will, in turn, help and influence the training of their colleagues.

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### More Effectiveness Research Required

Although there are various opinions on the ability to measure learning outcomes, there are already some indications of the impact of computers. It is clear that when computers are accompanied by effective educational software, a student's motivation to learn increases greatly, as well as his/her self esteem. This was particularly true for students with below average ability.

In addition, there are other beneficial aspects of computers:

- the creation of special opportunities for the academically gifted;
- the improvement in enthusiasm for school;
- special opportunities for the learning disabled; and
- students working independently, yet helping others with questions.

To quote from a leading educational journal, the Canadian School Executive, **"if the computer is to justify its considerable costs, educators must have confidence that some growth is occurring which would not otherwise have evolved using traditional methodology"**. We anticipate additional research will be required to address these and other planning decisions. However, we noted a recent study which stated that "funding has not previously been allocated to allow the type of research required to support effective long-range planning".

## Education

### Computers in Education Initiative

#### Critical Decisions Needed Now

Since its formation in 1983 the Computers in Education Centre has made many decisions in pursuit of its long range goal of providing every student with 30 minutes of computer time daily. There has been some success but full implementation in all schools is still a distant goal. Towards that end, the Government has recently promised significantly more funding for computers, software and implementation activities. Consequently, we believe that **the initiative has now reached a critical stage where further strategic decisions are required.** These decisions must take into account not only the current problems but also the constraints imposed by previous decisions.

#### RESPONSE

The following response was received from the Deputy Minister of Education on October 13, 1988.

#### SUITABILITY OF COMPUTERS SELECTED

##### **Unique Design Has Added to Costs and Delayed Implementation**

*"The Ministry has moved to address the incompatibility issue through its recent policy announcements concerning the Software Portability Environment and the Stage 1 specifications for G.E.M.S. . Delay in the initial delivery of software to schools was unavoidable due to the time required for software development. There was also a lack of commercial software designed specifically for educational purposes. Presently, however, there are some 130 software programs available for use on G.E.M.S., with an additional 60 under development."*

##### **Less Costly Alternatives Exist to Meet Board Needs**

*"... , it is not within the Ministry's mandate to set Canadian Content guidelines, but rather, the Ministry has merely adhered to Government policy in this area, as determined by the Ministry of Industry, Trade and Technology. Canadian Content guidelines as they apply to software, as with other learning materials such as textbooks, are set in keeping with the Ministry's responsibilities for Ontario curriculum."*

*"The Ministry would concur with the Provincial Auditor that school board acquisition of G.E.M.S. was driven by the subsidy proffered. This, however, was by intent: a powerful machine was necessary in order to allow students to work with truly educational software, software which required a more powerful and sophisticated machine than the 8-bit computers prevalent at the time."*

*"The cost of a typical G.E.M.S. workstation is comparable to similarly equipped brand name microcomputers (i.e. with colour display, mouse, networking, operation system, warranty, etc.). The Ministry's incentive grants are intended to influence board purchasing decisions in favour of G.E.M.S. technology and away from soon-to-be obsolete 8-bit technology. The grants serve the function of orienting boards towards more sophisticated technology in their long range implementation planning. The grants do not, however, preclude board purchases of 8-bit microcomputers for those educational purposes appropriately served by such technology, such as basic word processing."*

## Comments on Ministry Audits

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*"With respect to the development of software for these machines, the majority of software developed since 1986 takes full advantage of the advanced features of G.E.M.S., and indeed, must do so in order to meet one of the criteria upon which a funding decision is based.*

*"Mindful that research in terms of 'ideal' numbers of computers necessary to support educational goals is as yet more suggestive than definitive, the Ministry is not looking to achieve a hardware objective as such. Rather, the Ministry has directed attention towards software and implementation objectives that support the appropriate use of the technology to enhance learning opportunities for Ontario students. While hardware will still be required to achieve these objectives, a hardware target is no longer an objective."*

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### **Student Access to Computers Varies Widely among School Boards**

*"The Ministry was also conscious of the varied access problem, and when technological advances allowed, moved to address this concern with the revision of the requirements under which microcomputers become grant-eligible."*

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### **Industry Development Objectives Not Met**

*"The Ministry recognizes the desirability of fulfilling industrial development objectives for the Province. To this end the Ministry has made a concerted effort to incorporate prevailing and emerging international standards within the revised Stage 1 specifications for G.E.M.S., consulting with the Ministry of Industry, Trade and Technology, and hardware and software vendors, prior to the release of these specifications.*

*"Within its mandate, however, the Ministry must focus on the Ontario educational community its primary constituency, to whom it is ultimately responsible for providing program and policy direction derived from educational imperatives. Within this framework every attempt is made to reconcile industrial development objectives with educational objectives, where the two spheres overlap."*

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### **SOFTWARE DEVELOPMENT AND LICENCING**

#### **Some Development and Licencing Efforts Poorly Planned**

*"A needs assessment policy has since been developed and implemented in order to provide more effective decision-making and to ensure value for money."*

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#### **Significant Delays in Approving Projects**

*"Approval procedures are being reviewed and streamlined to be more efficient and effective. However, the contract approval process will continue to be governed by the (Computers in Education Centre's) mandate to ensure fiscal and curriculum responsibility in the approval of software proposals."*

## Education

### Computers in Education Initiative

#### **Field Testing Ineffective**

*"Existing field testing and internal software review procedures have been refined to address the need for improved quality control. . ."*

#### **More Involvement Required in the Acquisition of Commercial Software**

*"In May 1988, the Ministry initiated a three-year program, totalling \$13.9 million, to provide funding to school boards for the acquisition of commercial software. This initiative will be monitored to determine the extent to which acquisition funding can replace development funding. Preliminary analysis of board acquisitions under this program suggests, however, that there continues to be a paucity of commercial curriculum-rated software for school use."*

*"A recent re-structuring within the (Computers in Education Centre) will place a greater emphasis on determining the most effective types of educational software, and the Ministry will be exploring opportunities to use alternative financing arrangements for software development as the industry matures."*

#### IMPLEMENTATION

#### **Insufficient Emphasis on Implementation**

*"To meet these needs, three Regional Pilot Test Centres have been established in Kingston, Ottawa and London. These are research-oriented and longitudinal in nature (three years). The research reports, when received by the Ministry, will be disseminated to all school boards. These reports should serve as a solid foundation upon which school boards can develop and implement their own programs."*

*"The Regional Centres are cooperative endeavours among a school board, a faculty of education, and the Ministry."*

#### **Teacher Training Support Inadequate**

*"... the Ministry would agree with the Provincial Auditor that in-service to teachers has not been emphasized during the period 1982-1986. This was a conscious decision, in that there were too few machines available, and too little software developed to justify a major effort in this regard in terms of both value for money and program efficiency."*

*"Since 1986, however, both hardware and software have become available in sufficient quantity to argue for more action in this area. Local programs offered by school boards are encouraged and supported through the Ministry's Regional Computer Advisory Committees. Additional Qualification courses continue to be offered by facilities of education and school boards, and a \$6 million Cabinet submission on teacher training has been developed to address the need for greater Ministry involvement in this area."*

## Comments on Ministry Audits

### **More Effectiveness Research Required**

*"The Ministry is in agreement with this finding."*

### **Critical Decisions Needed Now**

*"The Ministry recognizes that the initiative has reached a critical stage where further strategic decisions are required, particularly in the areas of research and directives given to school boards."*

#### **3.7 Weak Controls over Water and Sewage Treatment Plants, Ministry of the Environment**

There are 466 water treatment and 407 sewage treatment plants in Ontario which are designed to protect public health and the environment. The Ministry operates 99 water and 238 sewage treatment plants while the remainder are operated by municipalities.

Expenditures for the Ministry-operated plants during the 1988 fiscal year totalled \$74.5 million (Vote 1404, Item 2). This cost is recovered from municipalities.

#### **SUMMARY**

#### **SCOPE AND OBJECTIVES**

The audit was carried out at the Ministry's Corporate Office in Toronto and at its Regional and District Offices throughout the Province. Several plants were also visited to obtain an understanding of their operations.

We assessed whether satisfactory procedures were in place at the Ministry to ensure that water and sewage were treated in accordance with Ministry requirements, and whether appropriate information was available to management and the public on the quality of both drinking water and water returned to lakes and rivers through the sewage treatment system.

#### **CONCLUSIONS AND FINDINGS**

##### **CONTROLS OVER WATER AND SEWAGE TREATMENT PLANTS**

The Ministry's monitoring and control procedures to ensure water and sewage were treated in accordance with Ministry requirements were weak. Furthermore, there was incomplete information on the quality of both drinking water and water returned to lakes and rivers through the sewage treatment system.

- Most water and sewage treatment plants were not regularly inspected by Environmental Officers to ensure compliance with legislation and Ministry requirements.
- Sewage treatment plants reported that approximately three per cent of sewage bypassed normal treatment and flowed into lakes and rivers.

## Environment

### Water and Sewage Treatment Plants

- The Ministry reported that 281 of the 407 sewage plants met the general Ministry requirements for sewage treatment in 1986. Had the more stringent requirements set out in the Certificates of Approval for some plants been considered, fewer than 281 plants would have been identified.
- There was no report available to management and the public on whether water treatment plants met the Ministry's health and aesthetic (for example, taste and colour) requirements.

#### OTHER MATTER

Our limited review of the new Drinking Water Surveillance Program indicated that its implementation was progressing in a satisfactory manner.

#### COMMENTARY

#### Background

Generally, the larger municipalities operate their own water and sewage treatment plants, whereas in most smaller municipalities that lack the required engineering expertise, plants are operated by the Ministry.

The statutes which govern the operations of treatment plants are the Ontario Water Resources Act and the Environmental Protection Act. The Ontario Water Resources Act requires that a Certificate of Approval be issued by the Ministry upon the construction of or addition to a water or sewage treatment plant.

Sewage treatment plants process sewage to meet the general Ministry requirements for treated sewage leaving a plant. However, in some cases, plants must meet more stringent requirements set out in Certificates of Approval. These stricter standards would apply, for instance, where water from treated sewage could easily impair the receiving body of water. Both the general and specific plant requirements set quantitative standards by which the level of organic material and phosphates in treated sewage are determined.

Water treatment plants remove impurities from drinking water so that it meets the Ministry's health and aesthetic (for example, taste and colour) requirements. The quantitative standards for these requirements are available to the public in "Ontario Drinking Water Objectives".

The Ministry has several mechanisms to monitor water and sewage treatment. These include: analysis of samples taken at the plants; inspections by Regional Environmental Officers; and, Corporate reports on plant activities. In addition to these mechanisms, there is the relatively new Drinking Water Surveillance Program which monitors toxins and some basic contaminants in drinking water.

## Comments on Ministry Audits

### *CONTROLS OVER WATER AND SEWAGE TREATMENT PLANTS*

#### **Inspections by Environmental Officers Not Conducted**

There are 163 Environmental Officers in the Ministry's Regional and District Offices. These Officers, in addition to many other responsibilities, conduct formal inspections of both Ministry and municipally-operated plants. Environmental Officers have the power, under the Ontario Water Resources Act, to conduct inspections at any time. The purpose of these inspections is to ensure compliance with legislation and Ministry requirements. These Officers have the authority to lay charges for non-compliance with legislation.

Environmental Officers were expected to complete a report form for each plant inspection and to give copies to the Regional Manager. The inspection form for sewage required that independent samples be taken with the results compared to standards established by the Ministry. Other matters to be reported included information on flows, sludge quality, the disposal process, general housekeeping of the plant, data submission, record keeping, and other general comments and recommendations.

Similarly, the water inspection form required that independent samples be taken to ensure compliance with established Ministry standards. In addition, information was required on plant capacity, flows, quantities of disinfectants and fluoridation, housekeeping and the Officer's comments and recommendations.

During our visits to the Ministry's six Regional Offices we found that **most treatment plants had not been inspected in at least two years**. Water treatment plants were inspected in only one region and sewage treatment plants were inspected in only two regions.

The regions which did not perform regular inspections indicated to us that if there had been a serious problem with the treated sewage or drinking water, they would have taken appropriate action. However, this action would only have occurred after they were informed of the problem by the Ministry laboratory. **It is imprudent to restrict inspections to situations where problems have already been identified, since the purpose of regular inspections is primarily preventive and protective.** In one example, which illustrates the importance of regular inspections, an Environmental Officer noted a pesticides tank being stored over a grate, directly above outflowing drinking water. As a result of the visit, corrective action was taken to eliminate the danger of a leak and the potentially disastrous consequences. Regular inspections are essential for the Ministry to ensure that plants are properly maintained to enable them to continue to meet treated sewage and water quality standards.

We recommended that Environmental Officers conduct in-depth inspections of all water and sewage treatment plants at least annually. Furthermore, we believe it would be advisable to supplement these inspections with periodic informal visits particularly to plants identified as having problems in the past. All inspections and visits should be documented to assure management of the work performed and to record matters that require follow-up. This would be especially helpful if the follow-up has to be done by a different Officer.

## Environment

### Water and Sewage Treatment Plants

#### Sewage Discharged into Lakes and Rivers

Untreated or only partially treated sewage is discharged into the Province's lakes and rivers during moderate to heavy rainstorms, when the plant or sewer system cannot handle the volume. Such discharging of sewage is called "bypassing". Bypassing may cause beaches to be closed, recreational waters to be declared unsafe, and the normal life cycle of plant and aquatic life to be disrupted. It is the responsibility of each plant to report monthly to the Ministry the frequency, volume and duration of any bypassing.

During our review, we found:

- **No regular report was produced by the Ministry's Utility Monitoring Information System (Information System) to inform management about bypassing.** In addition, the Ministry's "Table of Currently Available Reports" did not list a bypass report. We had to request a special computer run from the Information System to obtain a report on bypassing which had been measured and reported. According to this report, **for the 12 months ending December 31, 1986, 75 sewage treatment plants reported 1,400 instances of bypassing and 61 million cubic metres of untreated and partially treated sewage. This represents approximately three per cent of the total volume of sewage treated.**
- All measured bypassing occurrences were not being reported to the Information System. In one region, we examined five plant files and found information on seven instances of bypassing, totalling 5.6 million cubic metres, which were not included in the Information System.
- Bypasses occurring in the sewage collection system, that is prior to the sewage reaching the plant, were generally not being measured and reported to the Information System.
- When bypassing occurred, some of the plants did not include samples of outflowing sewage taken during these times in their final, reported samples, while other plant operators expressly avoided sampling during bypassing.
- The published Discharge Report provided information on the ability of plants to meet Ministry requirements for treated sewage under normal circumstances when bypassing had not occurred. To show a complete picture of the quality of water returned to lakes and rivers, the Report should also have included information on occurrences of bypassing.
- Bypassing is an offence under the Environmental Protection Act if bypassing is considered unnecessary and will cause, or will be likely to cause, adverse effects. The Ministry did not, however, have definitions of "necessary bypassing" and "unnecessary bypassing" to aid in the determination of whether an offence had occurred.

The Ministry was also of the opinion that bypassing is not a spill under the Environmental Protection Act, where the bypassing is "normal". In this

## Comments on Ministry Audits

regard, they considered bypassing to be "normal" where its occurrence is the direct result of rainfall or spring thaw conditions. We noted that in one particular instance where bypassing was considered to be abnormal by the Ministry, legal action was taken against the municipality involved for failing to report its occurrence.

We recommended that:

- All measurable occurrences of bypassing be reported to the Information System and be reflected in the Discharge Report.
- A consistent practice be adopted for sampling during bypassing occurrences.
- Clarification be made of the meaning of "unnecessary" bypassing in order to enable a consistent determination of when an offence has occurred.

Without adequate information on the extent of bypassing of untreated and partially treated sewage, the Ministry is unable to determine the effect of bypassing on the environment and, therefore, is unable to take appropriate corrective action to prevent or minimize bypassing in those locations identified as having harmful effects on the environment. The availability of such information is essential to highlight particular sewage works which had a greater need for remedial action.

### Incomplete Information Reported

Treatment plants are required to periodically submit samples of both the incoming water or sewage and the outflowing treated water or sewage to Ministry laboratories for analysis. In addition, some plants also periodically perform their own analyses.

The results of testing these samples provide for the identification of incoming pollutants, an analysis of the effectiveness of current physical and chemical treatment, and an analysis of the final outflow to ensure that treatment to remove harmful substances has been appropriate. Plants are immediately advised by the laboratories of the detection of any serious problems so that prompt, corrective action can be taken.

Results of in-plant tests, together with the Ministry laboratory results, are averaged monthly by the plant operators and are sent to the Regional Offices and to the Corporate Office for recording and analysis in the Information System. Summary and exception reports produced are used in the development of health and environmental impact evaluations, and in the planning of programs and funding allocation decisions.

During our review we found that:

- The publication "Report on the Discharges From Municipal Wastewater Treatment Facilities in Ontario" (Discharge Report), which is issued annually to the public, compares sample test results for individual plants,

## Environment

### Water and Sewage Treatment Plants

as reflected in the Information System, with general Ministry policies for treated sewage. However, it does not incorporate the more stringent requirements set out in the Certificates of Approval for some plants. Due to the lack of readily accessible information, we were unable to determine how many plants had additional requirements in their Certificates of Approval.

The most recent Discharge Report (October 1987) **identified that 281 of the 407 sewage plants met the Ministry's general requirements for sewage treatment in 1986. Had the more stringent requirements of the Certificates of Approval been used, fewer plants would have been identified as meeting acceptable standards.** Our review of three plants, which were reported to be in compliance in the Discharge Report, indicated that two of these plants were, in fact, not in compliance with their Certificates of Approval.

**There was no report on water treatment plants available to management and the public that disclosed the sample test results reported to the Information System.** The publication "Municipal Water Treatment Works in Ontario" (Water Report), which is issued bi-annually to the public, includes information on plant capacity and type of treatment for each water plant. However, **unlike the Discharge Report for sewage plants, the Water Report does not compare sample test results for individual plants with Ministry treatment requirements. In this regard, the Ministry was unable to provide us with information on whether water treatment plants met health and aesthetic treatment requirements as set out in the "Ontario Drinking Water Objectives".**

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#### OTHER MATTER

##### Drinking Water Surveillance Program Progressing

There is a growing concern about toxic chemicals in water, particularly those that do not readily break down and can accumulate in the tissues of living things to potentially dangerous levels. Probably the best known of these are PCBs and dioxin. The Drinking Water Surveillance Program, established in 1986, was designed to provide readily accessible, reliable information about the levels of these chemicals and some basic contaminants in raw and treated water. Since toxic chemicals are usually found in very small amounts, proper implementation of the Program required sophisticated sampling analysis techniques.

There are 160 different chemicals currently being measured in 46 municipal and Ministry water treatment plants. These plants supply drinking water to about 80 per cent of the Province's population. Eventually, the Program will involve all water treatment plants in Ontario and will provide information on the quality of the Province's source waters as well as the efficiency of the treatment used.

**Our limited review of this new Program indicated that its implementation was progressing in a satisfactory manner.**

## Comments on Ministry Audits

### RESPONSE

The Deputy Minister responded to our comments and recommendations on October 13, 1988.

#### CONTROLS OVER WATER AND SEWAGE TREATMENT PLANTS

##### ***Inspections by Environmental Officers Not Conducted***

*"The Ministry agrees with the recommendation. However, as noted in the 1987 Provincial Auditor's Report, Environmental Officers are also required to handle other abatement work such as spills, industrial inspections and complaints investigations. The Ministry is endeavouring to increase the frequency of in-depth inspections while taking into account all program demands and balancing overall Ministry priorities.*

*"Inspection follow-ups will continue to occur to the extent resources allow.*

*"The Ministry will ensure that all appropriate documentation is filed."*

##### ***Sewage Discharged into Lakes and Rivers***

*"The Ministry is in the process of ensuring that all bypassing occurrences that can be measured are fully documented and characterized within (the Utility Monitoring Information System) as to quantity and quality. These data shall be reflected in the 1988 Discharge Report.*

*"The Ministry undertakes to define 'unnecessary' by-passing for abatement and enforcement purposes."*

##### ***Incomplete Information Reported***

*"Several compliance reports are currently produced. Once the integration of information systems is complete, the Ministry shall produce a single comprehensive annual report which addresses facility compliance with all water quality objectives."*

### 3.8 Weak Management Practices, Computer and Telecommunication Services Program, Ministry of Government Services

The Computer and Telecommunication Services (CTS) Program provides computer and telecommunication services, and information technology to Government ministries and other authorized, publicly-funded organizations.

During the 1988 fiscal year, CTS incurred expenditures of \$97 million and recovered \$82.5 million through billings to client users (Vote 1605).

### SUMMARY

#### SCOPE AND OBJECTIVES

In our review of the CTS Program, our audit objectives included assessments of whether:

## Government Services

### Computer and Telecommunication Services Program

- . management was satisfactorily controlling spending for computer hardware and software acquisitions, and whether these assets were being adequately safeguarded;
- . management was adequately monitoring the use of the Ontario Communications Network and whether the services offered were economical and efficient; and, whether
- . adequate controls existed with respect to the processing and payment of telecommunication billings.

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#### CONCLUSIONS AND FINDINGS

##### *EDP RESOURCES*

Satisfactory controls existed over the acquisition of EDP software and supplies. However, we were unable to assess the adequacy of controls over computer hardware acquisitions as no documentation was available.

Protective controls over the loss or theft of assets were weak.

##### *ONTARIO COMMUNICATIONS NETWORK*

Telecommunication services, for the most part, were provided economically and efficiently. The level of service provided by the Network was acceptable and CTS achieved monthly savings of approximately \$1 million for the Government. However, CTS monitoring of the use of the Network was weak.

- . New telephone features enable Government employees to access the Network undetected from their home telephones.
- . There were no regular monitoring procedures to determine whether the Network was used only by authorized users on Government business.
- . Savings totalling \$300,000 a year could be achieved by utilizing the Network for regular, long-distance calls made to areas serviced by the Network.
- . For the 1-800 service, 44 per cent of the lines reviewed were underutilized.

##### *TELEPHONE BILLING PROCESS*

Internal controls over the payment process for telephone bills were weak.

- . CTS was attempting to recover approximately \$1 million in overpayments due to billing errors.

## Comments on Ministry Audits

### COMMENTARY

#### Background

CTS computer services are available to each ministry and certain, publicly-funded organizations. The use of these services is optional and the cost is fully recoverable from each client. As a result, for some years, CTS has experienced competitive pressures from the private sector, particularly in terms of pricing, systems distribution and computer compatibility.

The telecommunication services provided by CTS are a mandatory central service. The CTS' Ontario Communications Network is provided free-of-charge.

#### EDP RESOURCES

In the 1987 fiscal year, CTS spent approximately \$26 million on EDP-related items.

|                            | Amount              |
|----------------------------|---------------------|
| Hardware equipment leasing | \$19,293,000        |
| Software licencing         | 5,276,000           |
| EDP supplies (paper, etc.) | <u>1,455,000</u>    |
|                            | <u>\$26,024,000</u> |

#### Hardware Acquisitions Not Documented

No documentation was available supporting the selection of the suppliers for either of two major leases:

- . a mainframe computer system; and
- . disk storage devices.

Since the value of these leases was in excess of \$25 million, we expected to find evidence that sufficient research and appropriate planning had been performed in the selection and installation of such hardware. However, no documentation was available. We were, therefore, unable to assess the process used in acquiring the computer hardware. For example, **the propriety of a \$15 million contract awarded to a vendor for computer disk storage devices could not be verified as the submissions from vendors were not available.**

We noted that in a February 1988 report, the Ministry's Audit Branch also had concerns regarding documentation of hardware acquisitions.

We recommended that a central filing system be implemented to control documentation generated in the hardware acquisition process.

#### Adequate Controls over Software and Supplies

Software acquisitions and annual maintenance fee payments were reviewed and found to be in compliance with Management Board of Cabinet Directives and Ministry policy and guidelines. Existing controls were effective in ensuring that acquisitions and annual maintenance fees were appropriate.

## Government Services

### Computer and Telecommunication Services Program

EDP supplies were obtained through the competitive procurement process, and standing agreements between vendors and the Ministry were established for a one-year period.

#### Inadequate Safeguarding of EDP Equipment

Ministry policy and procedures require that all assets over \$500 in value, as well as any "attractive" items, be identified with an asset control tag and recorded in the Asset Control Inventory. Also, an annual inspection is to be conducted to verify that the article is still in the Ministry's possession.

Approximately 730 EDP-related assets were recorded on the CTS Asset Control Inventory, valued at \$1.8 million.

**We were unable to review the Asset Control Inventory, since the physical locations of the assets could not be readily determined from the list.** However, a random inspection of 44 EDP items, such as microcomputer system units, monitors, and printers, revealed that 13 of the items were neither recorded in the Inventory nor tagged. Several other items were recorded in the Inventory but were not tagged. Tests of telecommunication assets revealed similar discrepancies. **CTS management advised that the Inventory was not correct and has not been for some years.**

**Protective controls against loss or theft were weak. The room used to store microcomputers and software, as well as other non EDP-related items, was unlocked for the entire duration of our audit. Masking tape had been placed over the door catch so the door would not lock. CTS management claimed that the building lessor would not provide a key.**

An inventory of EDP-related items in the storage room was conducted and the value of these items was estimated to be in excess of \$50,000.

**Security doors were not yet installed to control access to the CTS-occupied floors. One microcomputer, worth approximately \$8,100, was reported missing during the course of our audit.**

We recommended that CTS correct the deficiencies in asset controls to ensure that assets are adequately safeguarded against loss or theft.

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#### ONTARIO COMMUNICATIONS NETWORK

##### Overview

The CTS Network Centre manages and operates telecommunication networks which ministries and approved agencies, boards, and commissions use for transmitting voice, data, audiovisual and other types of information. There are over 55,000 telephone terminals connected through the Ontario Communications Network, the province-wide dedicated voice network which links Ontario Government offices and provides low cost telephone transmission for the Government. The system also accesses the public telephone network.

## Comments on Ministry Audits

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Full Network services are available to users on consolidated telecommunication systems in Toronto, Ottawa, Kingston, Oshawa and Hamilton. This allows the user to call from any Ontario Government office on the Network to any telephone (Government or public) in Ontario, Montreal and Quebec City. In addition, partial Network services are available at other locations to provide access, during business hours, to Government numbers in Toronto.

CTS provides the Network as a central service to its users at no cost. For the 1988 fiscal year, CTS expended \$12.3 million to lease lines and equipment required by the Network. Essentially, all other telecommunication costs, except for the Zenith and 1-800 services, are paid for by CTS and are recovered from users.

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### **Substantial Savings Achieved by the Ontario Communications Network**

The CTS Network Centre is responsible for ensuring that the Communications Network is providing the proper level of service at a reasonable cost. This is achieved by monitoring both the level of service provided and the number of leased lines to the locations served. Too few lines would reduce the acceptable service level, while too many lines would result in unnecessary costs.

**In reviewing the utilization of lines, we were satisfied that an adequate level of service was maintained. Calls placed over the Network are over 50 per cent less expensive than the regular long distance rates, which results in monthly savings of approximately \$1 million.**

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### **Unauthorized Access to the Network Possible**

#### *Unauthorized Access from Home*

**A number of new telephone systems make it possible for employees to gain undetected access to the Network from their home telephones.** This would allow the employee to place personal calls anywhere in Ontario at the taxpayers' expense.

**Program management has been aware of this weakness since December 1986, when one of its own employees was found to be abusing the system. However, no action was taken to address the problem until our enquiries.**

Program management has indicated that the system feature required to control this will be included as part of all future acquisitions. Also, CTS will examine the feasibility of introducing program changes to existing equipment to prevent such unauthorized access in the future.

#### *Network Vulnerable to Misuse*

Approximately 21,000 wallet-sized directories with unique identification codes are issued to authorized Government employees. These are to be used only for conducting Government business. Anyone with a code has toll-free access to the Network from any telephone in the Province.

## Government Services

### Computer and Telecommunication Services Program

At the time of our audit in March 1988, there were no monitoring procedures in place to ensure that the Network was being used only as intended.

Program management advised us that there was no evidence of serious abuse of the Network. However, since no monitoring is performed, misuse would not be detected.

We were informed that in the fall of 1984, the Manager of the then Telecommunications Services Branch requested that the Central Switchboard operators record evening usage of the Network by individual users of directories. The request was made to determine whether there was any misuse. Evening and weekend callers must provide their identification code and the name of their Ministry to the operators before a call is placed on the Network.

This was not undertaken because Program management believes their role is strictly that of a service provider and that ministries are responsible for monitoring usage. This includes ensuring that only authorized persons use the Network and that use is limited to Government business. However, since these calls are processed through the Central Switchboard, ministries are unable to monitor such usage.

Since costs are related to usage, we felt controls and checks are necessary to ensure that misuse is minimized. CTS should play the central role in initiating these controls. For example, in our review of Network usage statistics for 15 months ending January 24, 1988, we noted that the average length of a call during Monday to Friday was 3.7 minutes, while the average call length on weekends and holidays was 6.8 minutes, an increase of 82 per cent. While there may be legitimate reasons for the difference, Program management had not performed any follow-up to determine why this was occurring. Notifying ministries would be an effective initial step.

#### Excessive Use of Regular Long Distance

Users of Government telephones have the option of dialing long distance using the public telephone system or the Network for calls to areas it services. Ministries encourage their staff to use the Network not only because of the savings accruing to the Government, but also because the cost of the Network is paid by CTS. On the other hand, regular long-distance calls are paid by the individual ministries.

For the 1988 fiscal year, ministries spent \$3.9 million for regular, long-distance telephone calls.

We reviewed 38 telephone bills with regular long-distance charges at 17 ministries. While in many cases we were satisfied that calls made using regular long distance were for areas not accessible by the Network, significant improvements are still possible. **We noted that 16 per cent of calls were to areas serviced by the Network.** Projecting these results over the total long distance charges, we determined that the Government could save approximately \$300,000 annually by routing these calls over the Network.

## Comments on Ministry Audits

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Management informed us that there are important advantages in allowing ministries a choice of whether to use the Network when placing a call:

- . If the Network is busy or down for repairs, access to regular, long distance lines may be needed.
- . On some of the older telephone systems transmission via the Network can be poor for facsimile or data transmission.

Taking this into account, the following solutions are still possible:

- . New telephone systems being acquired are capable of automatically routing any regular, long-distance calls through the Network. Should the Network have problems, calls would automatically be routed, over regular, long-distance lines. In addition, the Network is available 99 per cent of the time.
- . Where applicable, pre-recorded messages could be played each time a call is made using regular long distance. The message could inform the caller that the Network services the destination dialed and that use of the Network should be considered.

We recommended that CTS consider these and any other alternatives to maximize the savings possible with the Network.

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### Public Calls to the Government Inadequately Managed

The acquisition of telephone equipment and services is a mandatory central common service which is provided by CTS. This applies to all Government local and Network voice facilities, including local telephone and intercom systems, inter-city and other telephone networks, mobile-telephone services and related systems.

Nevertheless, some ministries independently provide the public with toll-free, long-distance calling to the Government, utilizing either 1-800 or Zenith services.

While both 1-800 and Zenith services offer similar advantages to the public, there are differences in cost and the amount of detail provided on bills:

- . 1-800 is cheaper when there are large volumes;
- . Zenith bills itemize each call whereas 1-800 bills only provide total usage; and
- . each Zenith call placed has a three-minute minimum call charge.

In our opinion, savings could result if this service was centrally controlled.

To determine potential cost savings, Bell Canada examined the Zenith and 1-800 services used by each ministry. In 1987, Bell approached most ministries using Zenith lines and suggested they convert to the 1-800 service. **For those who**

## Government Services

### Computer and Telecommunication Services Program

converted, a savings totalling \$180,000 is expected by 1989. However, from Bell Canada's analysis of the remaining unconverted Zenith lines, another \$500,000 could be saved annually.

In addition, we examined 28 bills for the 1-800 service (71 telephone lines) that were managed by the ministries. Of these, 31 lines (44 per cent) were significantly underutilized when compared to the number of hours purchased per the contract. While it is appropriate that 1-800 be used in these instances, the number of hours purchased should be decreased.

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#### TELEPHONE BILLING PROCESS

##### Overview

CTS recovers payments made on behalf of client ministries and it is each ministry's responsibility to verify any charges billed to them for monthly telephone services. Therefore, we only reviewed expenses which were absorbed by CTS.

The most significant non-recoverable costs related to the leasing and rental of telephone lines used for the Ontario Communications Network service. For the year ended March 31, 1988, these lines accounted for \$9.7 million of the total \$12.3 million cost. There were a total of 1,515 lines on 107 available routes.

Each time a line is installed or removed, the supplier produced a new equipment record listing the lines still in operation and the applicable monthly rates. The next monthly bill should reflect these new charges.

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##### Significant Overpayments of Telephone Bills

We found that the controls over the payment of telephone bills were weak. There was no evidence that equipment records were reviewed and approved by the Network staff prior to payment.

From a sample of paid bills for December 1987 and January 1988, we found that significant errors occurred in the payment for leased and rented lines from common carriers. Specifically, for the 15 routes we reviewed, which comprised 629 lines:

- . 11 routes had lines that did not agree with the equipment records provided by the Network Centre;
- . the amounts paid for six routes did not agree to information on the equipment records;
- . duplicate payments were being made for four lines on one route; and
- . lines were being paid for that were not installed while lines that had been installed were not being paid for.

## Comments on Ministry Audits

Because of the numerous problems identified, we were unable to determine the total value of errors being made. In addition, several lines did not have up-to-date equipment records available. Therefore, correct charges could not be determined.

**CTS was aware of these errors and in two separate claims, was attempting to recover approximately \$1 million in overpayments. In one claim for \$451,042, monthly payments were made from April 1987 to January 1988, even though CTS management was aware that the particular lines had been removed by March 1987.**

In our opinion, the aforementioned problems resulted from the lack of a formal review and approval of individual equipment records. After additions, deletions or changes to lines are made, the Network staff should verify the bills and equipment records before they are filed.

### RESPONSE

The Deputy Minister responded to our comments and recommendations on August 22, 1988.

#### Background

*"While telecommunication services are designated as a 'mandatory central common service', only a portion of telecommunication services are provided without cost to ministries. The costs associated with the Ontario Communications Network are funded primarily by CTS; costs for telephone installations, repairs, services and long distance charges incurred by client ministries are recovered from their allocations."*

### EDP RESOURCES

#### Hardware Acquisitions Not Documented

*"Hardware acquisition awards are made on the authority of Management Board after detailed scrutiny by Management Board Secretariat and review with the Board. All vendor submissions and associated documentation are available during the decision making process to all parties to the decision."*

*"Currently, a central filing system is being developed with consulting assistance. Appropriate records retention policies will be observed in the design and scheduling of this system."*

#### Inadequate Safeguarding of EDP Equipment

*"It is agreed that the accuracy of the asset control inventory for small items should be improved through current updates and validated through periodic physical counts. This will be done over the next year."*

*"A new card access security system which prevents unauthorized individuals from entering premises has been installed on appropriate doors and is operational."*

## Government Services

### Computer and Telecommunication Services Program

#### ONTARIO COMMUNICATIONS NETWORK

##### **Unauthorized Access to the Network Possible**

###### *Unauthorized Access from Home*

*"New features on modern digital telecommunication switches have created various exposures to abuses. Certain of these features, such as the ability to 'call forward' incoming telephone calls to home numbers, are being used to improve program effectiveness and 'on call' service. In some cases, access to the OCN during off hours from employee residences may be desirable.*

*"CTS will work with customer ministries on a continuing basis to limit abuse exposures and to introduce appropriate control and monitoring features as they become available."*

###### *Network Vulnerable to Misuse*

*"A detailed review of monitoring practices and tools will be undertaken with a view to identify improvements that can be made to protect the government from potential abuses, and to provide ministries with information necessary to detect abnormalities. The initial phase of this review is scheduled for completion within six months.*

*"It is the view of management that ministries must bear the prime accountability for use of telecommunication services by their staff. The modernization of the telephone system will assist in the development of appropriate monitoring technologies. CTS recognizes its responsibility to assist ministries in this regard."*

##### **Excessive Use of Regular Long Distance**

*"It is agreed to encourage ministries to use the OCN through more active marketing and communication initiatives. Information will be sent to clients within a month and periodically thereafter. Other means will be investigated to make clients aware. Clients will be requested to consider automatic OCN routing on their switches where possible. Some regular long distance will continue to be appropriate. The potential savings of \$300,000 includes long distance calls that could have been made for the valid reasons cited in the report."*

##### **Public Calls to the Government Inadequately Managed**

*"Zenith and 1-800 services are procured and managed directly by individual ministries. The recommendation that these services and associated monitoring be centralized merits careful analysis, and will be discussed in the coming months with those responsible for telecommunications policy in connection with the role and mandate review currently underway. It seems assured that more savings will be possible when conversion of the government's telephones to digital technology is completed."*

## Comments on Ministry Audits

### TELEPHONE BILLING PROCESS

#### Significant Overpayments of Telephone Bills

*"It is routine to authorize payment to telecommunication carriers promptly to avoid considerable late payment charges. Reconciliation of these invoices follows as customers review their records against invoiced amounts and inventory records are checked. Using these practices, overpayments were identified prior to the audit and appropriate steps were taken to secure repayment. Subsequently, all recoveries have been secured. Temporary assistance has been retained to carefully review all accounts and verify the appropriateness of charges, recognizing new tariff schedules have been introduced, and common carriers have been replaced, thus compounding billing reconciliation.*

*"The major problem in reconciling invoices is the vast amount of information currently requiring manual review. Automated reconciliation packages will be acquired to address this matter as soon as possible. Network staff will be appropriately involved as well."*

### 3.9

#### Concerns over Hospital Funding and Performance Monitoring, Ministry of Health

The Ministry provides operating grants to 223 hospitals under its Institutional Health Program.

This funding, in the form of transfer payments, amounted to \$5.1 billion in the 1988 fiscal year and represents approximately 85 per cent of these institutions' revenues (Vote 1702, Item 2).

### SUMMARY

#### SCOPE AND OBJECTIVES

We assessed the adequacy of procedures in place at the Ministry to ensure that operating grants:

- were properly processed and paid; and
- were well spent by the institutions.

The audit was primarily conducted at the Ministry but included visits to four hospitals to review information not readily available at the Ministry.

### CONCLUSIONS AND FINDINGS

#### GRANT PROCESSING AND PAYMENT CONTROLS

Controls over the processing and payment of operating grants to public hospitals were found to be satisfactory. However, we had several concerns regarding the funding arrangements:

- Despite the stated Ministry policy that hospital deficits would not be funded, approximately \$33 million was paid to 69 hospitals which had operating deficits in the 1987 fiscal year.

## Health

### Hospital Funding and Performance Monitoring

- Unnecessary deficit funding may have been provided to hospitals since the financial resources available in the hospitals' Foundations were not taken into consideration.
- Funding reductions of at least \$10 million over two fiscal years (1985 and 1986) could have been realized by taking into account declining patient activity.

#### *MONITORING OF PERFORMANCE*

Ministry monitoring procedures inadequately ensured that operating grants to public hospitals were well spent:

- Formal lines of accountability between the hospital Boards and the Ministry did not exist.
- Large cost variations between hospitals were not adequately followed up by the Ministry.
- Complaints received from the public about care received in hospitals were insufficiently addressed by the Ministry.

#### COMMENTARY

#### *GRANT PROCESSING AND PAYMENT CONTROLS*

##### **Background**

Hospitals are currently funded in accordance with the Business Oriented New Development Plan, which was introduced by the Ministry effective April 1, 1982. Under this Plan each hospital is allocated a specific amount which is to be used for operating purposes. This amount is based on the previous year's funding allocation plus allowances for additional factors, including inflation and new, expanded programs.

Prior to the Plan, surplus funds were returned to the Ministry and deficits were generally funded by the Ministry, either partially or fully, depending on the availability of funds. However, under the Plan, hospitals were to be allowed to retain any surplus on operations but would have to absorb any deficit. Thus, the Plan was intended to change the financial accountability relationship between the Ministry and the hospitals. It was hoped this new funding approach would encourage hospitals to maximize their revenues and achieve reductions in expenditure through economy and efficiency of operations.

Since the introduction of the Plan in the 1983 fiscal year, Ministry funding of the operating costs of hospitals has increased an average of 11 per cent per year to \$4.7 billion in the 1987 fiscal year.

##### **Satisfactory Controls**

About two months prior to the start of each fiscal year, the Ministry informs the hospitals of their approved funding allocation for the year. The hospitals then submit an operating budget to the Ministry for review. The Ministry's grants are paid to the hospitals in equal amounts, twice a month, based on the approved

## Comments on Ministry Audits

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allocation. Subsequent to year-end, annually-audited financial statements are sent to the Ministry by the hospitals.

Segregation of duties exists within the Ministry over the processing and payment of operating grants to hospitals. For instance, the functions of the Ministry's Fiscal Resources Branch include the calculation of the allocation of funds to individual hospitals, cash flow calendarization, distribution, receipt and review of hospital budget forms. The Ministry's Finance and Accounting Branch is responsible for the recording and processing of payments to hospitals.

**Our tests of these controls did not reveal any significant deficiencies in the processing and payment of grants to hospitals.**

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### Funding of Hospital Deficits

One of the major impacts of the funding philosophy of the Plan was that hospitals would be allowed to retain any operating surplus but would have to absorb any deficit. **The position of the Government was made quite clear in the Legislature on October 28, 1982, when the then Minister of Health informed the House that "we will not accept or pay for deficits incurred in this or future years".**

**However, in the 1987 fiscal year, one-third (69) of the hospitals were in a deficit position and approximately \$33 million in additional funding was provided on a one-time basis. We were informed by senior management that the Ministry had also paid hospitals for deficits incurred in previous years, but the number of hospitals and amounts involved were not readily determinable by the Ministry at the time of our audit.**

The \$33 million in deficit funding was allocated to hospitals based on the hospitals' estimated year-end deficits. Our review of 18 hospitals which had received approximately \$22 million of this funding, revealed that the Ministry had overfunded these hospitals in excess of \$4 million. The actual deficit was lower than that originally estimated by the hospitals. The hospitals were allowed to retain these surplus funds despite the fact that evidence indicated that the Ministry was aware of this situation.

Due to the large number of hospitals which had received deficit funding and the failure of either the Ministry or hospitals to satisfactorily account for all causes of the deficits, the former Minister of Health sent a letter on March 31, 1987, to the Chairmen of the Boards of all hospitals. This letter informed them that a "full review of the system of allocating funds to hospitals and the responsibility and accountability for the expenditure of these funds is in order".

This review was to be carried out in conjunction with the Management Board Secretariat and the Ministry of Treasury and Economics. However, this review had been postponed since the Government's Throne Speech in September 1987 had indicated that a review of the health care system would be performed by a new group -- the Premier's Council on Health Strategy. The Council is to develop a long-term strategy for health care in Ontario.

## Health

### Hospital Funding and Performance Monitoring

In addition, we were informed that the Ministry had recently hired seven external consulting firms, at a total cost of approximately \$2 million, to perform operational reviews of 22 hospitals which had incurred deficits in previous years. One of the objectives of the reviews was to identify factors that had contributed to the deficits. The consultants had commenced their work and the reports were to be submitted to the Ministry no later than March 31, 1988.

#### Lack of Consideration of Hospitals' Total Financial Resources

Many hospitals have incorporated a hospital Foundation as a separate legal entity to carry out charitable activities for the benefit of the hospital. Donations received by the Foundation are either earmarked for a specific use or are unrestricted in nature and thereby may be used at the discretion of the Foundation.

Over the years, funds have been transferred from hospitals to Foundations. The Ministry has no objection to the transfer of hospital funds to a hospital Foundation provided that certain conditions are met. For instance, the transfer of funds cannot substantially diminish the operating results of the hospital, in that it cannot lead to or worsen a current deficit position of the hospital. Further, any funds transferred from the hospital could be made available for any future operational needs of the hospital.

In December 1981, the then Minister of Health indicated in a speech to the Ontario Hospital Association that "hospitals, in future, will be obliged to report net income from all sources, including that from related corporations . . . (Also,) Ministry approval will be required to transfer funds out of the hospital corporation to Foundations. . .".

During our review of 25 of the 69 hospitals which had received deficit funding in the 1987 fiscal year, we noted that, between 1981 and 1987, **11 hospitals had transferred funds on several occasions from the hospital to a Foundation. We were advised that, in all cases, Ministry approval was not obtained for these transfers.**

While the Ministry has established conditions for the transfer of funds to Foundations, **the Ministry neither kept track of the funds transferred nor did it obtain the financial statements of any Foundations. Accordingly, the Ministry was not in a position to determine whether a hospital, which had previously transferred funds to a Foundation, had financial resources available in the Foundation which could be used for hospital operations or deficits.** Therefore, we requested and received Foundation financial statements from 10 hospitals which had received deficit funding. Our review of these statements revealed:

- One hospital, which received \$2.5 million in deficit funding from the Ministry, had transferred \$3.2 million from its operations to the unrestricted capital funds of its Foundation.

## Comments on Ministry Audits

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- Another hospital, which received approximately \$3 million in deficit funding from the Ministry, had approximately \$5.4 million of capital funds in its Foundation, not restricted for any specific use. All donations received by this Foundation were classified as capital. Furthermore, this Foundation charged the hospital approximately \$3 million in fees, between 1984 and 1987, for managing apartment residences.
- Another hospital, which received \$1.2 million in deficit funding from the Ministry, had approximately \$2.1 million of capital funds in its Foundation which were, again, not restricted for any specific purpose. All donations received by this Foundation were also classified as capital.

We acknowledged that some of the funds of the Foundations would be used by hospitals to cover the portion of capital costs not funded by the Ministry. **Clearly, however, had the Ministry reviewed the activities between hospitals and Foundations, as well as the resources of the Foundations, the amount of deficit funding provided by the Ministry could have been significantly reduced.**

We recommended that funding transfers from hospital operations to Foundations be monitored by the Ministry to ensure that the operating results of the hospitals are not substantially affected. Further, in order to determine a hospital's total financial resources, we strongly recommended that the Ministry obtain and review all hospital Foundation financial statements.

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### Lack of Funding Reduction Despite Decline in Patient Activity

The Ministry's annual allocation to hospitals provides additional funds for an increase in the number of patients treated in each hospital, up to a maximum of two per cent of the Ministry's annual allocation. In the 1987 fiscal year, the Ministry provided approximately \$42 million to hospitals for growth funding.

The Ministry bases its funding on the highest growth level achieved by a hospital but does not reduce funding when hospitals experience a decline in activity from the previous year. **Our examination of the growth factor for the 1985 and 1986 fiscal years indicated that about 25 per cent of the hospitals experienced reductions over the previous year. Several hospitals had a decline of more than 2,000 patient-days and, in two cases, the decline was more than 10,000 patient-days.**

**We estimated that the Ministry could have reduced total funding by approximately \$10 million by taking into account the decline in patient activity.** We recommended that the Ministry consider a reduction in funding to hospitals which experience a decline in patient activity.

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### MONITORING OF PERFORMANCE

#### Accountability of Hospital Boards to Ministry Needs Improvement

Public hospitals are corporations established under the Business Corporations Act or under other Acts of incorporation and are run by Boards of Trustees,

## Health

### Hospital Funding and Performance Monitoring

elected or appointed, pursuant to the Public Hospitals Act. These Boards are responsible for all aspects of hospital operations.

Approximately half of the Ministry of Health's expenditures were directed to hospitals for health care services. With such substantial public financial support of hospitals, taxpayers are entitled to expect hospital Boards to be held accountable for providing an acceptable level of patient care in a cost-effective manner.

But to whom should these Boards be accountable and by what means? To address these questions, we reviewed the legislation affecting hospitals, namely, the Ministry of Health Act and the Public Hospitals Act and Regulations, in addition to other information provided to us by staff of the Institutional Operations Branch of the Ministry.

Clearly, the Minister of Health has the ultimate responsibility for the operations of hospitals including the quality of care provided and the cost-effectiveness of their administration. Recognition of this responsibility by the Ministry is evident from an objective of the Institutional Operations Branch which states that the Branch has the responsibility to hold hospitals accountable for the economic, efficient and effective expenditure of public funds. A performance measurement system designed to meet this objective was in place at the time of our audit.

**However, we had major concerns whether the Ministry was properly utilizing the information generated by the system to ensure public funds were being well spent by the hospitals.**

We acknowledged the various accountability initiatives taken by the Ministry such as the development of a *Guide for Comprehensive Auditing in Hospitals* and participation in the development of guidelines for management information systems in Canadian health care facilities. **However, in spite of the various initiatives, legislative requirements, and all of the information provided by hospitals to the Ministry, we were unable to determine precisely the means by which the Ministry exacts accountability from hospital Boards for the prudent use of public funds.** For example, we saw no evidence of reports to the Ministry from the Boards on their review of the causes of trends in costs-per-patient-treated or on actions taken to correct deficiencies noted in Accreditation and Quality Assurance Reports.

We recommended that a clear understanding of the nature of the responsibilities of the Minister of Health and hospital Boards be formally established so that the Boards will be able to provide the Minister with reasonable information on how well they have discharged their responsibilities for quality of care and resource management.

#### Inadequate Monitoring of Performance Indicators

The performance measurement system of the Institutional Operation Branch is intended to measure how efficiently a hospital provides patient care and to bring about changes in performance.

## Comments on Ministry Audits

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The Branch is divided into six area teams, each responsible for approximately 40 hospitals. Teams are headed by a senior administrative consultant who is assisted by consultants in hospital administration, financial management and nursing administration. One of the major responsibilities of the financial consultant is to evaluate the efficiency and effectiveness of hospitals. This is accomplished by monitoring hospital financial and performance data, and by advising hospital administrators and Board members, as may be required, on how to achieve satisfactory performance levels.

In order to monitor hospital expenditures, the Ministry established the concept of cluster, or peer groupings, of hospitals whereby similar hospitals were grouped based on the type of services offered and the range of diseases treated. The Ministry organized Ontario's 223 public hospitals into 18 different peer groupings. Using either the annual operating data (e.g. nursing - total cost per total patient-day) received from the Ontario Hospital Association, or the annual operating data (e.g. dietetics - gross cost-per-diem basis) submitted by the hospital to the Ministry, an institution's performance can be compared with other hospitals in its grouping, annually, or over a period of years.

**There were a large number of hospitals which had numerous performance indicators significantly higher or lower than their grouping's average. We were informed that much of the financial consultants' time was spent reviewing operating results of hospitals incurring deficits rather than assessing the variances of all hospitals.**

Accordingly, we selected 20 hospitals from several groups and reviewed 28 performance indicators from the 1986 and 1987 fiscal years which were at least 10 per cent higher than their respective grouping's average. **For only one hospital was there evidence to show that the Ministry had investigated the causes of the variances. Furthermore, it was interesting to note that two of the selected hospitals had received Ministry deficit funding without apparent investigation of the variances.**

We recommended that Branch supervisory staff ensure that the financial consultants adequately follow-up all hospitals which have performance indicators significantly above or below their group's average. Such analysis would also be useful to the Ministry to periodically reassess the adequacy of its Business Oriented New Development Plan funding to hospitals and to provide information on the uniformity of health care services across the province.

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### Inadequate Follow-up of Complaints

We estimated that in 1986 and 1987, the Minister of Health received in excess of 2,600 public complaints regarding problems encountered in various hospitals. A large number of these complaints related to the quality of care received. Depending on the nature of the complaint, the Minister took action by either requesting that the Institutional Operations Branch prepare a reply for his signature to be sent to the complainant, or by asking the Branch to take appropriate action. Appropriate action may include requesting the hospital to review and respond to the complainant's concerns and to remit a copy of its response to the Ministry.

## Health

### Hospital Funding and Performance Monitoring

A complaint file is maintained for each hospital; however, a procedure was not established to ensure that all complaints received were followed up. We examined 45 randomly-selected complaints requiring appropriate action to be taken by the Branch and found:

- **No evidence that 14 complaints had been addressed by the Ministry, several of which we felt were quite serious in nature.** In one case, a patient's appendix was removed to alleviate pain in the abdomen yet the pain persisted after surgery. It was subsequently discovered that the pain was due to an internal infection which was treatable with medication. In another case, a patient was heavily sedated and prepared for surgery before it was realized that the attending surgeon was on vacation.
- **Copies of the hospitals' responses to nine complaints had not been received by the Ministry.** In one instance, a patient had been booked for elective surgery many months in advance. The patient was given all the necessary pre-admission tests and was prepared for surgery on the assigned day. Later that morning the surgery was cancelled and had to be re-scheduled. The cancellation was due to a shortage of nurses at the hospital.
- **A hospital had not responded to a complaint which had been referred by the Ministry.** During our visit to this hospital, we could find no record of the complaint.

Complaints are an indicator to the Ministry of the effectiveness of the quality of patient care provided by hospitals. It is, therefore, important that proper control is maintained over complaints received by the Ministry. We recommended that:

- Consultants maintain a record, by hospital, of all complaints received and how they are being addressed.
- Branch supervisory staff review the actions taken to ensure that complaints are properly followed up.

#### RESPONSE

The Deputy Minister replied on October 13, 1988 as follows:

#### GENERAL

*"The Minister of Health . . . has publicly committed that the Ministry will take definite steps to clarify areas of responsibility and accountability within the hospital management structure. We also intend to ensure that funding procedures are clear, consistent and fair."*

*"The Ministry is presently preparing draft regulations which will clarify and enhance hospital boards' responsibility and accountability for hospital budgetary control. We are also undertaking a more comprehensive review of the Public Hospitals Act which will lead to the introduction of new legislation in the fall of 1989."*

## Comments on Ministry Audits

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### GRANT PROCESSING AND PAYMENT CONTROLS

#### ***Funding of Hospital Deficits***

*"An evaluation of the factors and circumstances surrounding the occurrence of the 1986/87 expenditure problems led to the decision to provide additional funding to selected public hospitals. This decision was reviewed by Management Board of Cabinet and additional funding was provided to the hospitals."*

*"With regard to funding provided to those hospitals whose actual deficits were lower than initially forecast, it was the Ministry's view that the funds were required to meet real working capital deficiencies."*

*"The Ministry would note that the operational reviews of 23 public hospitals with chronic deficits have been completed. . . ."*

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#### ***Lack of Consideration of Hospitals' Total Financial Resources***

*"The funds provided to, and held by, hospital foundations are typically designated for capital purposes, often for specifically named capital purposes. The Ministry, therefore, considers it inappropriate to assume that these funds should be used to finance operating costs."*

*"The Ministry will be taking additional steps to monitor transfers of hospital operating funds to Foundations which will include hospitals providing the financial statements of their Foundations."*

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#### ***Lack of Funding Reduction Despite Decline in Patient Activity***

*"The issue raised is a complex one. Even though the decline in a utilization indicator such as the number of patient days would seem to point to the conclusion that funding reductions are indicated, changes in case mix acuity, program costs and shortened length of stay may, in fact, have increased costs. The Ministry will be reviewing its hospital operating funding approaches and will consider the Auditor's recommendations within this context."*

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### MONITORING OF PERFORMANCE

#### ***Accountability of Hospital Boards to Ministry Needs Improvement***

*"The thrust of this statement is that hospitals should provide 'reasonable information on how well they have discharged their responsibilities for quality of care and resource management'."*

*"The Ministry would note that hospitals provide extensive and comprehensive reports on resource management. These include budgetary and actual operating and statistical data on numerous facets of their organization."*

*"Hospital by-laws are scrutinized and approved by both the Ministry's legal branch and hospital operating branches. As the Introduction to the Prototype Hospital By-Laws state, they form the basis of administration or management of*

## Municipal Affairs

### Unconditional Grants

*the corporate activities of the Hospital and are binding on all persons who come within their scope. They are critically important to the proper functioning of the Hospital since they govern the basic legal and working relationship between members of the Corporation, its governor trustees, its Chief Executive Officer, the medical staff organization and the physicians practising in the hospital.*

*"In the event of a serious problem, the Public Hospitals Act provides for the appointment of an investigator, and where appropriate, a supervisor who would, in effect, become the temporary governing body of the hospital. Nevertheless, the Ministry recognizes that public hospitals are separate legal entities under the Corporations Act. We have found that mutually beneficial relationships between the Ministry and hospitals is the norm. Problems can, generally, be resolved in a mature manner.*

*"The Ministry would note that the responsibilities for auditing the activities of public hospitals lies with the external auditors. Guidelines to assist external audits have been developed by the Ministry.*

*"When concerns or exceptional circumstances arise, the Ministry's Audit Branch is used to review procedures, operations and activities of public hospitals. Over the past 8 years, approximately 14 audits of public hospitals have been conducted by the Audit Branch."*

#### **Inadequate Monitoring of Performance Indicators**

*"The Ministry will continue to strengthen the attention given to hospital performance indicators within peer groups and also the indicators which show variances in a hospital's own performance level from one fiscal period to the next. Often these cost variances are not indicative of inefficiencies but reflect unusual operational or functional differences."*

#### **Inadequate Follow-up of Complaints**

*"The Ministry recognizes that improvement is required in this area and is actively examining the ways in which public complaints are dealt with and is developing and implementing measures to strengthen our systems in this area."*

### 3.10 Inflexible Allocation Formulae Warrant Reassessment, Unconditional Grants, Ministry of Municipal Affairs

The primary objective of Unconditional Grants is to ensure Ontario's 839 municipalities have sufficient financial resources to provide the services under their jurisdiction and to reduce the impact of property tax increases on local taxpayers.

For the 1988 fiscal year the Grants totalled \$824 million (Vote 2402, Item 1). Increases in Grants to municipalities have averaged approximately 4.5 per cent per year over the past four years.

## Comments on Ministry Audits

### SUMMARY

#### AUDIT OBJECTIVE

In conducting our review of Unconditional Grants, an audit objective was to assess the appropriateness of the procedures for allocating Grants to the various municipalities.

#### CONCLUSION AND FINDINGS

##### GRANT ALLOCATION PROCEDURES

**We questioned whether certain basic Grant formulae, which were established in 1973, have provided the Ministry with sufficient flexibility to address the changing economic conditions of municipalities since that time.**

- . The method used to calculate Resource Equalization Grants for resource-poor municipalities should be re-examined.
- . The Northern Support Grant rate of 18 per cent of a northern municipality's tax revenue warrants reassessment.

##### OTHER MATTER

**Proposed sharing of infrastructure installation costs for a new automobile corporation site resulted in provincial-municipal conflicts.**

### COMMENTARY

#### Background

Under the Ontario Unconditional Grants Act and its regulations, payments are made to municipalities by the Ministry of Municipal Affairs to help offset general operating costs. Grants are used at the discretion of each municipal council as there are no conditions attached to the payments.

Every fall, the Treasurer of Ontario determines and announces the total amount of Unconditional Grants to be allocated by the Ministry to municipalities for the next fiscal year. These funds are allocated by the Ministry to the 839 municipalities based on a number of Grant formulae. While the basic formulae were established by legislation a number of years ago, the Ministry does have some leeway to revise components of the basic formula. Accordingly, each year these formulae are reviewed and, if necessary, revised in light of current and forecasted economic conditions. For instance, certain of the formulae provide funds based on the number of property tax assessments of a particular municipality. Others provide funds for specific purposes such as to assist municipalities in the north or those whose average assessment is below the provincial standard.

##### GRANT ALLOCATION PROCEDURES

#### Need to Re-examine Method of Calculating Resource Equalization Grant

In the 1988 fiscal year, the Ministry allocated \$123 million in Resource Equalization Grants. This Grant was introduced in 1973 to compensate those

## Municipal Affairs

### Unconditional Grants

resource-poor municipalities whose average assessments are below the provincial standard established by the Ministry. It is paid to municipalities to enable them to improve service levels without imposing excessive property taxes.

The amount of this Grant is determined by a two-step process. The municipality's average assessment is compared to the established provincial standard (\$57,000 in the 1988 fiscal year). If it is less, 60 per cent of the difference is eligible for funding up to a maximum of 25 per cent of the municipality's tax revenue.

**At the time the Grant was introduced in 1973, the Ministry had expected that the Grant would have widespread benefits and that a number of municipalities would qualify for it based on their assessments.**

A review of this Grant program in 1986 by the Municipal Finance Branch suggested changing the provincial standard from \$57,000 to the actual calculated average of \$51,000. This would reduce the number of eligible municipalities to fewer than half of the current number that qualify for this Grant, thereby enabling these funds to be directed to the more resource-poor municipalities. However, this suggestion was never implemented.

**For the 1988 fiscal year, with the provincial standard of \$57,000 still being used to calculate the Grant, approximately 625, or 75 per cent of the municipalities received this Grant. Had the Grant calculations been based on \$51,000, we calculated the total Resource Equalization Grants paid out would have been reduced by over \$50 million. These funds, or a portion thereof, could have been made available to resource-poor municipalities. As a result, the Program may be misdirecting its payments by not aiming them solely at resource-poor municipalities.**

This view was also shared by the Association of Municipalities of Ontario whose examination of the Resource Equalization Grant revealed that a large portion of the Grant allocation was misdirected and unsuccessful in meeting its objective.

In view of our observations, we recommended that the methodology used for calculating Resource Equalization Grants be again reviewed by the Ministry.

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#### **Need to Re-examine Northern Support Grant Rate**

The Northern Support Grant was established in 1973 to reduce property taxes below the levels prevailing in the rest of Ontario. It is paid to all northern municipalities to reduce the financial burden which results from higher costs generally attributed to the northern climate, great distances and isolation of such communities. Total payments for this Unconditional Grant amounted to approximately \$76 million in the 1988 fiscal year.

When first established, the rate for this Grant was set at 10 per cent of a northern municipality's tax revenue. By 1977, the rate had increased to its current level of 18 per cent. However, no in-depth analysis was done to support the Grant rate of 18 per cent and whether it accurately reflected the cost differential faced by northern municipalities in providing municipal services.

## Comments on Ministry Audits

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In comparing property taxes in northern and southern municipalities, we noted that the average residential property tax in northern municipalities (\$600 per household) is approximately half that of Metropolitan Toronto (\$1,350) and the entire province (\$1,100).

In addition, although we found that municipalities in the north annually spend, on the average, about \$150 more per household for municipal services than those in the south, we noted that in the 1987 fiscal year, northern municipalities received Unconditional Grants averaging about \$525 per household compared to \$155 per household in the south. We were informed that the Ministry believed that residents in the north also faced a higher cost of living than the rest of the province and, accordingly, should get a relative advantage in their property taxes.

Based on information available from the Ministry of Treasury and Economics, we reviewed and compared cost of living statistics in northern and southern communities. **Our analysis of the costs of three principal commodities revealed marginal differences in the cost of food and gasoline. Housing prices, however, were significantly higher in southern Ontario,** averaging \$195,000 in Metro Toronto, compared to \$98,000 in North Bay and \$120,000 in Thunder Bay as of December 31, 1987.

Furthermore, information available from Statistics Canada on individual employment income for the 1985 fiscal year revealed that **the difference in average income is marginal between northern and southern communities.**

In view of the foregoing, we recommended that the Ministry review the differential in Support Grants between northern and southern municipalities to ensure that current economic conditions are properly reflected.

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### OTHER MATTER

#### Lack of Agreement - Funding of Infrastructure Costs

In December 1985, the Province announced that a Japanese automobile corporation would be constructing an assembly plant on a 400-acre site located in the City of Cambridge within the Regional Municipality of Waterloo. At that time, the Province assured the corporation that the costs for the installation of a municipal infrastructure, such as roads, watermains and storm sewers to service the site, would be shared by the Province and municipalities with no cost to the corporation. Normally, the estimated cost of \$22.8 million would be a municipal or the site developer's responsibility.

**When the Province approached the municipalities involved with respect to sharing the infrastructure costs, they refused to bear any of the cost because the Province had made the commitment to the automobile corporation without involving them.** Furthermore, the municipalities felt that the Province was acting as the site developer and, typically, site developers paid the entire cost of the necessary infrastructure.

## Municipal Affairs

### Unconditional Grants

The Ministry of Municipal Affairs was subsequently directed to negotiate with the City of Cambridge and Regional Municipality of Waterloo. The Ministry's role was to ensure that both municipalities would make a financial contribution toward the infrastructure costs for servicing the corporation site and that there would be no delay with the plant construction.

**In May 1986, the Ministry submitted a proposal to Cabinet for approval.** It recommended sharing of the infrastructure costs for the corporation site as follows:

|                                      | Phase I<br>(\$ Million) | Phase II<br>(\$ Million) | Total<br>(\$ Million) |
|--------------------------------------|-------------------------|--------------------------|-----------------------|
| Province of Ontario                  | 16.3                    | up to 10.0               | 26.3                  |
| City of Cambridge                    | 4.4                     | -                        | 4.4                   |
| Regional Municipality<br>of Waterloo | <u>2.1</u>              | <u>-</u>                 | <u>2.1</u>            |
| Total                                | <u>22.8</u>             | <u>up to 10.0</u>        | <u>32.8</u>           |

Cabinet approved the proposal and directed that the costs related to the infrastructure installation be funded by way of grants and loans administered through a cost-sharing agreement. Both the City and Regional portions were to be financed by interest-bearing loans from the Province, repayable when the automobile corporation began to pay property taxes on the plant.

**Since then, conflicts have arisen over the sharing of infrastructure costs.** Numerous meetings and discussions have taken place between officials of the Ministry and the municipalities. However, both the City of Cambridge and the Regional Municipality of Waterloo have not changed their previous position. They still feel that the Province should pay the full cost of the infrastructure.

**In July 1987, an amended proposal was submitted to Cabinet.** The revised cost for the installation of the infrastructure was to be apportioned as follows:

|                                      | Phase I<br>(\$ Million) | Phase II<br>(\$ Million) | Total<br>(\$ Million) |
|--------------------------------------|-------------------------|--------------------------|-----------------------|
| Province of Ontario                  | 18.7                    | 5.9                      | 24.6                  |
| City of Cambridge                    | 2.1                     | -                        | 2.1                   |
| Regional Municipality<br>of Waterloo | <u>2.7</u>              | <u>3.2</u>               | <u>5.9</u>            |
| Total                                | <u>23.5</u>             | <u>9.1</u>               | <u>32.6</u>           |

Cabinet approved the amended proposal and re-affirmed its earlier decision that the Province and municipalities enter into a cost-sharing agreement. At the completion of our audit field work in March 1988, this agreement, although drafted, had not been ratified by all three parties.

#### RESPONSE

The Deputy Minister responded to our comments and recommendations on September 29, 1988.

## Comments on Ministry Audits

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### GENERAL

*"... I appreciate and concur with the general thrust of your recommendations concerning the grant formulas utilized to allocate the Unconditional Grants to municipalities ... the Minister has already directed us to undertake a complete review of the Unconditional Grants Program to ensure that it continues to meet the Ministry's and Government's objectives in the most effective way.*

*"... It is not clear that there will be any overall savings if revisions are made. The main objectives of sharing provincial revenues with municipalities through the Unconditional Grants are to reduce the burden on the property tax and to stabilize local mill rates. Any significant reduction in funding would be contrary to these objectives. Accordingly, a redistribution of funding may be a more likely result of program revisions."*

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### GRANT ALLOCATION PROCEDURES

#### **Need to Re-examine Method of Calculating Resource Equalization Grant**

*"When the REG (Resource Equalization Grant) was introduced, it was intended, as a matter of policy, to have a widespread benefit. The 1973 Budget estimated that almost 83 per cent or 748 municipalities would qualify. One reason for the large number of qualifying municipalities has been that assessment in the Province tends to be concentrated in a small number of municipalities. Of the 800 lower tier municipalities, the largest 10 per cent account for more than 80 per cent of the total assessment in the Province.*

*"Subsequent to 1983, the Ministry revised the REG to eliminate the open-ended nature of the Grant and to distribute it in a more appropriate way. This was achieved by placing a limit on the entitlements to individual municipalities, reducing the level of REG funding to upper tier municipalities, and restricting the increase in the assessment standard. (It was frozen at \$57,000 for three years.)*

*"As a result of these initiatives, the number of municipalities receiving REG was reduced from 750 in 1983 to 609 in 1987, and funding for the REG fell from 28 per cent of the total Unconditional Grants to 15 per cent. These changes improved the distribution of the REG.*

*"However, the Ministry will be examining the REG in conjunction with its review of the entire Unconditional Grants Program."*

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#### **Need to Re-examine Northern Support Grant Rate**

*"The Report claims that there has been no in-depth analysis to substantiate that the different support rates paid to northern municipalities (24 per cent) and southern municipalities (6 per cent) reflect current economic conditions.*

## Natural Resources

### Forest Firefighting

*"All municipalities receive a General Support Grant equal to 6 per cent of their levy base. In addition, northern municipalities receive a Northern Support Grant (NSG) equal to 18 per cent. This brings the total support rate in the north to 24 per cent."*

*"The NSG is viewed as part of the Government's general policy of offering assistance to northern Ontario. Given this priority, the NSG rate has not been reduced."*

*"However, the Ministry is committed to a re-examination of the levels of support given to the north through the Unconditional Grants Program."*

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#### OTHER MATTER

#### **Lack of Agreement – Funding of Infrastructure Costs**

*"Some municipalities absorb the costs of infrastructure, although many others require developers to pay for the infrastructure required to service their lands. In this case, the Province owned the lands on which the corporation's assembly plant was to be built, as well as considerable additional land in the vicinity. As a result, the Region of Waterloo and City of Cambridge insisted that the Province was the developer and should pay for servicing these lands."*

*"While industrial development is not the responsibility of the Ministry of Municipal Affairs, the Ministry was subsequently assigned responsibility to establish a cost-sharing agreement with the municipalities. The agreement that was being negotiated by the Ministry dealt with the 400 acres for the automobile assembly plant (Phase I) and an additional 400 acres of provincially owned land which was adjacent to the plant (Phase II)."*

*"As the figures (in your report) indicate, the Province's share of the total costs for Phase I and Phase II decreased compared to the May 1986 submission. However, its share of the Phase I costs increased slightly because some projects were shifted from Phase II to Phase I. It should also be noted that the figures in the May 1986 submission were preliminary and subsequent refinements were made in accordance with appropriate engineering studies."*

*"The cost-sharing agreement which Cabinet approved in July 1987 was finalized with all parties in March 1988."*

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#### **3.11 Improved Cost Controls and Resources Monitoring Required, Forest Firefighting, Ministry of Natural Resources**

The prevention, detection and control of forest fires is the responsibility of the Ministry's Aviation and Fire Management and the Extra Fire Fighting activities. Expenditures for both activities for the 1988 fiscal year totalled \$79.1 million (Vote 2602, Items 2 & 3).

## Comments on Ministry Audits

### SUMMARY

#### SCOPE AND OBJECTIVES

Our review of the Ministry's forest fire detection and suppression operations was conducted at the Aviation and Fire Management Centre in Sault Ste. Marie and three regional fire centres located in the Northwestern, North Central and Algonquin Regions.

Our audit objectives were to assess whether adequate controls were in place to ensure:

- . equipment, including aircraft, was being economically acquired; and
- . staff and equipment were being utilized efficiently.

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#### CONCLUSIONS AND FINDINGS

##### ACQUISITION OF EQUIPMENT

**Controls over the economical acquisition of equipment were generally adequate. However, we did note that the Ministry's water bombers cannot be cost-effectively serviced as there are inadequate hangar facilities.**

##### UTILIZATION OF EQUIPMENT AND STAFF

**Overall monitoring of the use of staff and aircraft needed to be improved to ensure more efficient utilization of these resources.**

- . While the Ministry had an excellent policy in place to self-evaluate its firefighting performance, only one region had implemented it.
- . Fire crews must be allocated more systematically to ensure they are located where they are most needed.
- . Recurring problems with deployment of fire crews and response times were not being identified and corrected.

**A concerted effort is being made by the Ministry to educate and inform the general public and industry about safe practices when using forests.**

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### COMMENTARY

#### Background

The Ministry's Provincial Fire Centre located in Sault Ste. Marie along with five regional fire centres are responsible for fire protection and suppression activities. These include planning, priority setting, preparedness, and detection and resource deployment, including equipment and personnel.

In addition, a network of attack bases are strategically located throughout Northern Ontario from which manpower and equipment are dispatched. The attack bases are staffed by fire crews from April to October and are equipped with helicopters and aircraft.

The Ministry's firefighting fleet primarily consists of owned and leased water bomber aircraft, helicopters, detection aircraft and other auxiliary equipment

## Natural Resources

### Forest Firefighting

such as portable water pumps, trucks, etc. The basic firefighting force consists of 170 five-person fire crews. Forty of the crew leaders are permanent staff while the rest are hired on a contract basis from April to October.

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#### ACQUISITION OF EQUIPMENT

##### Acquisition Controls

In the five-year period ending March 31, 1988, the Ministry expended \$146 million on the acquisition of equipment, supplies and services such as the purchase of attack base supplies, water pumps, water bombers and the rental of other aircraft.

**Our review revealed that the Ministry's controls over the acquisition of fire-suppressing equipment supplies and services were adequate.**

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##### Water Bomber Maintenance Facilities Inadequate

Each of the Ministry's nine water bombers is required to undergo an annual maintenance program. This annual service takes about six weeks. In addition, every six years, each aircraft must undergo a major inspection and maintenance program which takes two to three months to complete.

**The new water bombers are much larger in size than other Ministry aircraft and cannot be accommodated in the existing Ministry hangar facilities in Sault Ste Marie.** While some space is leased in a privately-owned hangar in Sault Ste Marie, and some maintenance work can be done at a Ministry facility in Timmins, together these facilities are not adequate to allow all of the new water bombers to receive the required maintenance during the winter months.

The Ministry acknowledges that if a fire season should start before at least five of the water bombers are serviced and ready, both increased firefighting costs and fire losses could be expected.

Consequently, the Ministry submitted an application to Management Board of Cabinet in early 1986 for approval to construct a hangar that would consolidate existing facilities in the Sault Ste Marie area and accommodate the new water bombers at an expected cost of \$3.9 million. However, approval was not received from Management Board. We understand that re-application for the additional facilities will be made to Management Board later this year.

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#### UTILIZATION OF EQUIPMENT AND STAFF

##### Lack of Reviews on Major Fires

Ministry policy requires Regional Directors to appoint a Board of Review to inquire into and submit a report on all fires greater than 500 acres (200 hectares) in their regions. The report should document the actions taken and should provide an impartial analysis of general and specific problems in both planning and performance. It should also offer suggestions for future improvement. The

## Comments on Ministry Audits

report is to be submitted to the Director of the Aviation and Fire Management Centre for review.

**Between the 1984 and 1987 fiscal years, less than 15 per cent of the required Board of Review inquiries were conducted.**

### Fire Inquiries Required

| Year  | Fires Greater Than 500 acres | Number of Reviews |
|-------|------------------------------|-------------------|
| 1984  | 17                           | 0                 |
| 1985  | 0                            | 0                 |
| 1986  | 8                            | 1                 |
| 1987  | <u>21</u>                    | <u>5</u>          |
| Total | <u>46</u>                    | <u>6</u>          |

All five 1987 reviews were conducted by the Northern Region. Certain common issues were reported in the Northern Reviews that we felt would assist management in identifying potential problem areas, including:

- . lack of trained staff at fire sites;
- . water bombers generally not available when needed; and
- . occasional inadequate manpower allocation, both regionally and provincially.

We recommended that analyses similar to those carried out by the Northern Region in 1987 should be considered for all regions. Furthermore, we recommended that the Aviation and Fire Management Centre analyze these reports to identify common problems and suggest cost-effective strategies which could then be communicated to all regions.

### Improved Allocation of Fire Crews Needed

Most of the Ministry's on-the-ground forest firefighting is performed by its 170 fire crews which are allocated among the five regions as follows :

#### Distribution of Firefighting Manpower

| Region        | Number of Crews |
|---------------|-----------------|
| Northwestern  | 46              |
| North Central | 38              |
| Northern      | 29              |
| Northeastern  | 26              |
| Algonquin     | <u>31</u>       |
| Total         | <u>170</u>      |

## Natural Resources

### Forest Firefighting

In the absence of any formalized method of allocating staff by the Ministry, we reviewed the assignment of fire crews to the respective regions to determine whether the regions were adequately staffed to fight forest fires. For the five-year period between 1983 and 1987, we observed that :

- While 80 per cent of the total hectares burned were in the Northwestern and North Central Regions, they maintain less than 50 per cent of the total fire crews.
- Of 726 fire fighters temporarily moved from one region to another to meet fire emergencies, 251, or over 30 per cent of the total, were from the Algonquin Region.
- Of the regions receiving fire crews, Northwestern and North Central received 565 crews or over 75 per cent of the total. Algonquin Region was the only area not requiring any outside fire crews.
- Sixty per cent of fires in the Algonquin Region were handled by municipal fire crews.

The short-term, inter-regional transfer of crews is expensive in terms of travel costs and salaries. For instance, the Ministry estimated that the cost of temporarily transferring a crew to another region in the 1987 fiscal year was approximately \$5,000 per transfer.

In addition, we felt the current system placed too much reliance on inter-regional transfers, which could contribute to increased fire losses as a result of the extra time required to get crews where they are needed. For instance, all of the Reviews conducted on major fires in the Northern Region reported on the lack of manpower resources immediately available at the time.

A 1984 memorandum issued by the Assistant Deputy Minister for Northern Ontario recommended the re-deployment of fire crews so that they are based where needed. While some re-deployments have been carried out, we noted that the recommended transfer of seven fire crews from Algonquin to the Northwestern and North Central Regions has not been implemented.

While it is recognized that some inter-regional crew movements will always be necessary, we recommended that the present allocation of fire crews be reassessed.

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#### Inadequate Monitoring of Fire Response Time

When a fire is reported, the Fire Control Duty Officer will consider the vital data, such as the exact location of the blaze, spread potential, wind speed and direction, accessibility, and proximity to water sources. Initial manpower and firefighting equipment resources are then dispatched from the nearest attack base. If several fires are ablaze, the Duty Officer must make decisions regarding which fires require priority suppression and the number of crews and other resources to assign to each fire.

## Comments on Ministry Audits

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After each fire has been suppressed, a fire control report is prepared which documents the pertinent data such as area burned, fire response time, hours spent on the fire, etc. We reviewed a number of 1987 fire control reports primarily from the Northwestern and North Central Regions to compare the adequacy of fire responses with the Ministry-established response time criteria.

In our review, we noted 36 instances of response times in excess of 15 minutes where Ministry criteria required immediate dispatch of firefighting resources. In 17 of these instances, firefighting crews were dispatched after more than one hour.

**Under the current system there was little documentation outlining the reasons for delayed responses to reported fires.** In discussions with fire crew leaders, most cited that other fires may have been occurring at the same time and that manpower and equipment resources were being stretched at the time.

**While we believe that staff are doing their best to respond appropriately to all fires, the current system does not provide any documented explanation where response times are significantly in excess of Ministry standards.**

We understand that the Aviation and Fire Management Centre is currently reviewing its performance management and reporting systems so that improvements may be implemented in the 1989 fiscal year. In support of the Ministry's efforts, we recommended that response times in excess of those expected for a particular fire be followed up and formally explained. Such a monitoring system would enable recurring problems to be identified and corrected.

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### Fire Prevention Efforts

The Ministry has a fire prevention program in place which is primarily aimed at eliminating and reducing the risks of people-caused fires. **A concerted effort is being made to educate and inform the general public and industry about safe practices while using the forests.** Advertising, public relations and enforcement are some of the methods used to create awareness of the dangers and causes of forest fires. These include:

- use of printed material, film and videotapes;
- public education through the media, schools and public gatherings; and
- issuance of fire permits and the monitoring of outdoor fires during the fire season.

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### RESPONSE

The Deputy Minister provided the following reply to our findings and recommendations.

## Natural Resources

### Forest Firefighting

#### ACQUISITION OF EQUIPMENT

##### **Water Bomber Maintenance Facilities Inadequate**

*"These facilities are needed urgently and the Ministry plans to re-apply to Management Board, now that the uncertainty about the NorOntair hangar in Sault Ste. Marie has been resolved."*

#### UTILIZATION OF EQUIPMENT AND STAFF

##### **Lack of Reviews on Major Fires**

*"The Ministry agreed with the recommendations made in the 1982 Provincial Auditor's Report on Forest Fire Management Activity that:*

- the criteria for the selection of fires (are) to be reviewed and be made more sensitive and practical;*
- good terms of reference be a prerequisite for each review; and*
- a mechanism for acceptance and implementation of recommendations be established and that the resulting decisions be a matter of record.*

*"A revised Policy and Procedures Manual directive evolved from (the) recommendations and was issued June 20, 1988. It broadens the selection criteria from one of size alone to include fires where significant damage, cost, management activity or for other reasons warrants detailed review. Terms of reference will be specifically designed for each review and approved by the Assistant Deputy Minister, Northern Ontario. A procedure to ensure that recommendations resulting from reviews will be followed up on a timely and appropriate basis has been included.*

*"The revised selection criteria would have excluded many of the 46 fires greater than 500 acres that were the subject of the audit.*

*"A fire review reports the details of a single fire only and observations of (the) nature (mentioned in the Provincial Auditor's Report) are not uncommon. When put into the context of the provincial fire emergency situation, however, it becomes evident that :*

- shortages of trained staff occur because of the number of other fires burning simultaneously, some of which are of higher priority than the fires being reviewed;*
- the deployment of water bombers, because of their limited numbers, must be carefully controlled to direct them to :*
  - the most critical high priority fires where lives, property and valuable resources are being threatened;*
  - provide a holding action on new fires until ground crews arrive;*

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- *hot-spots under certain conditions on large fires;*
- *supplement initial attack crews on some extremely hot fires;*
- *meet most effectively, the diurnal fire activity cycle that peaks in the mid-afternoon.*
- *fire emergencies frequently require more manpower resources than are available locally. Fire crews are transferred to the scene as rapidly as circumstances permit.*

*"The fire reviews audited, reflect conditions that occur under fire overloads.*

*"The Ministry agrees that fire reviews can be a valuable source of information and assistance in improving firefighting effectiveness."*

### **Improved Allocation of Fire Crews Needed**

*"Fire crews are allocated proportional to the number and intensity of fires, not the area burned. Approximately half of the fires that occur each year occur in these regions. Therefore, it is appropriate that approximately 50% of the fire crews be located in these regions.*

*"We agree with the recommendation (and) the allocation of . . . fire crews will be reassessed."*

### **Inadequate Monitoring of Fire Response Time**

*"Delays in dispatch may occur for a number of reasons such as :*

- *large numbers of fires occurring simultaneously may overload transportation systems;*
- *fires may be reported at night in locations that are not accessible in the dark;*
- *fires may occur in wet conditions, or where spread is limited. Under these circumstances, there may be few costs associated with a slower than average response, especially when there are higher priority fires burning.*

*" . . . The recommendation that response times in excess of those expected for a particular fire be followed up on and formally explained is included in our Fire Management control report that will be implemented as soon as possible."*

### **3.12**

#### **Concerns over Tax Collection, Motor Fuels and Tobacco Tax Branch, Ministry of Revenue**

The Ministry's Motor Fuels and Tobacco Tax Branch is responsible for the collection and administration of revenue from gasoline, diesel and aviation fuels, tobacco and land transfer taxes. For the 1988 fiscal year, such revenues totalled over \$2.4 billion, including \$1.3 billion in gasoline and fuel taxes, almost \$640 million in tobacco taxes and \$470 million in land transfer taxes.

## Revenue

### Taxation Collection

#### SUMMARY

#### SCOPE AND OBJECTIVE

Our primary audit objective was to assess the adequacy and cost-effectiveness of the Motor Fuels and Tobacco Tax Branch's processing controls over gasoline, other fuels, tobacco and land transfer taxes.

#### CONCLUSIONS AND FINDINGS

##### *GASOLINE AND FUEL TAXES*

**Overall, controls for the processing and collection of gasoline and fuel taxes were adequate and cost-effective. However, we had the following concerns:**

- The Ministry has been unable to collect over \$4 million in unpaid taxes identified by recently improved controls over imported gasoline and fuel products.
- Millions of dollars in fuel taxes were being lost through export evasion schemes.

##### *TOBACCO TAX*

**Controls over the collection of tobacco taxes were satisfactory and cost effective. Although controls over interprovincial cigarette sales have been improved, the smuggling of tax-exempt exported cigarettes back into Ontario could be costing the Province \$10 million to \$15 million annually.**

##### *LAND TRANSFER TAX*

**Controls over land transfer tax transactions were less than satisfactory. Specifically:**

- The Ministry did not ensure that revenue received on its behalf by Land Registry Offices had all been deposited to the Province's Consolidated Revenue Fund.
- Significant delays in land transfer tax assessments have jeopardized collection and prosecution efforts.
- A significant backlog of land transfer tax appeal cases also delayed decisions to taxpayers.

#### COMMENTARY

##### *GASOLINE AND FUEL TAXES*

##### **Overview**

As of May 1988, the Province taxed leaded gasoline at 12.3 cents per litre and other grades of gasoline at 9.3 cents. Other fuel products are taxed at 9.9 cents per litre. Most of the taxes are collected by oil companies designated by the Ministry either when sales are made to consumers at the pump or when fuel is sold from the refinery to non-collectors such as independent companies. For

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gasoline tax, there are 44 such "designated collectors" which file monthly tax returns and remit the taxes collected. Eighteen of these companies also collect and remit other fuel taxes.

Consumers can apply for a tax refund when gasoline or fuel is used for tax-free purposes such as for heating or in unlicensed farming and construction equipment. However, it is illegal to use untaxed fuel in a licensed vehicle. In 1982, to discourage untaxed fuel from being used for taxable purposes, the Ministry required that non-taxable fuel be dyed at the refineries and introduced a fuel inspection program.

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### Processing of Tax Returns Adequate

**Based on our review of the processing of fuel and gasoline tax returns, we were generally satisfied that adequate controls were in place. For example:**

- Over 90 per cent of all gasoline and fuel tax revenues are collected by designated collectors on behalf of the Ministry. This is a cost-effective system of tax collection.
- Furthermore, there were adequate verification procedures to ensure that tax returns were filed and calculated correctly in accordance with rates established by the legislation. Incorrect returns were properly reassessed and approval procedures for refunds were adequate.

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### Uncollected Taxes on Imported Fuels

When used for heating, fuel is not taxed either federally or provincially. As a result, there is a great incentive for importers to declare otherwise taxable fuel as heating fuel. Prior to early 1987, there was no way to monitor whether U.S. fuel imported into Canada was subsequently used for taxable or non-taxable purposes. In February 1987, a federal/provincial agreement was implemented whereby fuel importers had to either pay federal excise and sales taxes before clearing customs or have their fuel cargo dyed by Revenue Canada Customs Officers upon entry into Canada. Dyed fuel enables Ontario inspectors to readily detect fuel used for taxable purposes.

However, under the current arrangement, Customs Officers do not collect any provincial taxes from fuel importers. Importers, other than the designated collectors, must also file a tax return at prescribed times to remit provincial taxes on gasoline and non-dyed fuel imported into Ontario.

When gasoline and non-dyed fuel have been federally taxed at the border, Revenue Canada forwards a copy of the cargo control document to advise the Ministry that provincial tax is due so that this information can be compared to importers' returns. Provincial tax is then assessed on any imports not declared on the returns.

## Revenue

### Taxation Collection

However, importers are not required to be registered with the province so that bonding security may be obtained to ensure that taxes owing are ultimately collected. Consequently, an importer can avoid paying provincial tax estimated at about \$3,000 per tanker truck by reporting a fictitious company name and address to the Customs Officers. **As of April 1988, the Ministry has been able to collect only \$400,000 of the \$4.6 million identified as owing according to the cargo control documents forwarded by Revenue Canada. In 15 cases, totalling \$1.2 million in unpaid taxes, the Ministry was simply unable to locate these companies.**

To reduce loss of tax revenue, we recommended that the Ministry negotiate with the federal government to have federal Customs Officers collect provincial taxes at the border. Compensation for the administrative effort required would be much less than the revenue to be gained. As an alternative, the Ministry should pursue registration of fuel importers.

#### Significant Evasion of Fuel Taxes through Export Schemes

Exported fuel products are tax exempt. In cases where exporters have purchased tax-paid fuel products in Ontario, they are entitled to a refund of provincial and federal taxes upon filing proof of export.

In recent years many jurisdictions have been concerned about the extent of tax evasion through export schemes. Our interviews with U.S. authorities and Revenue Canada officials confirmed that the problems of exports are significant and that organized crime may be involved. From our discussions and review of work done by these officials, we noted that there were various export schemes to evade taxes. For example :

- A tanker load of non-dyed fuel is obtained tax free from the supplier on the basis that it is to be exported to the U.S. However, a second tanker load of non-taxable dyed fuel is exported in its place, declared as non-dyed fuel. The first tanker load would then be consumed illegally in Ontario, with no risk of detection by fuel inspectors, while the second tanker load would be consumed in the U.S. or imported back into Ontario as non-taxable heating fuel.

This scheme to obtain fraudulent proof of export of non-dyed fuel could be repeated many times. In one instance, a tanker truck shipment which had been declared as U.S. heating fuel destined for Ontario was found to contain dyed fuel. Laboratory results confirmed a concentration of dye exceeding 27 times the normal dye concentration. **This suggests that the same tanker of fuel had crossed the border as many as 27 times, each time being dyed and obtaining fuel export documentation, thereby avoiding as much as \$80,000 in Ontario fuel tax.**

- In recent months, instances were noted where Ontario dyed fuel was used to operate buses and other transportation equipment in the northeastern United States. Although tanker inspections are rarely conducted because

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of fear of exposing flammable liquids to heat, a recent border spot-check was conducted by U.S. officials to verify the declared description of fuel products exported from Ontario. All six of the tanker trucks stopped for inspection were found to contain dye in their diesel fuel. Since there are no laws against the use of dyed fuel in the U.S., no further action was taken by the U.S. authorities.

Our discussion with the Organized Crime and Racketeering Section of the U.S. Department of Justice revealed that in 1988, a Petroleum Excise Tax Task Force was set up to investigate organized tax evasion activities in the U.S. and Canada, specifically in the State of New York and the Province of Ontario. Agencies involved in the Task Force include the U.S. federal and state revenue and justice authorities, and Revenue Canada.

Several policing authorities have also offered to provide manpower and services.

While the Task Force investigation is only in its early stages, the Organized Crime and Racketeering Section of the U.S. Department of Justice "conservatively estimate that the amount of taxes being avoided runs into the millions of dollars annually".

**We were unable to estimate the extent of tax avoidance. However, since the combined U.S. federal and New York taxes per litre amount to only a fraction of the Ontario fuel tax rate, the incentive for evasion is even greater in Ontario.** Ontario fuel exported to the U.S. amounts to over one billion litres annually. If, for instance, this volume of fuel is in fact consumed in Ontario, the loss of Ontario fuel tax alone would total about \$100 million.

We recommended that the Ministry:

- establish formal communications procedures with neighbouring states so that they would be notified of gasoline and fuel imported from Ontario. By notifying these adjoining states, Ontario fuel products would be identified and taxed by these U.S. jurisdictions. Collection of local taxes by these states would effectively reduce the incentive for fraudulent activities.
- make greater use of its inspectors to monitor fuel exports at Canadian Customs locations.
- participate on the Petroleum Excise Tax Task Force in order to develop and implement practical solutions to the problem of petroleum tax evasion.

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### TOBACCO TAX

#### Overview

The Tobacco Tax Act imposes a tax on all tobacco products including cigarettes, cut tobacco, and cigars. The Act regulates the sale and distribution of these products. This tax is paid by all tobacco consumers except diplomats and native Indians. The current tobacco tax rates are 3.83 cents per cigarette, 2.2 cents per gram of cut tobacco, and 45 per cent of the selling prices of cigars. Export sales and sales on board ships, airplanes, or in duty free shops are also exempt from tax.

## Revenue

### Taxation Collection

At the time of our audit there were about 130 Ontario tobacco tax collectors comprised of wholesalers, manufacturers/importers, and casual remitters. Wholesalers and manufacturers are required to file monthly tax returns and remittances with the Ministry.

Tobacco taxes are collected primarily from wholesalers and are calculated based on their monthly purchases of tobacco from the manufacturers/importers. The wholesalers recoup the tax when the product is sold to the retailers. The retailers, in turn, recoup it upon sale to the consumer.

Manufacturers submit monthly sales reports (known as "Tax Memos") to inform the Ministry of their monthly sales to wholesalers.

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#### Satisfactory Control over Revenue Collection

Based on our review of monthly tax returns from 40 tobacco tax collectors, as well as related sales reports provided by manufacturers, **we were generally satisfied that adequate controls existed in the collection of tobacco taxes.** Specifically:

- Purchases reported by wholesalers in their monthly tax returns were reconciled to the sales reported by the manufacturers' Tax Memos. Discrepancies were followed up on a timely basis to ensure that wholesalers did not under-remmit taxes by under-reporting purchases. **The system of Tax Memos proved to be highly cost-effective.**
- Tax returns were checked for mathematical accuracy by both automated computer edits and manual clerical verification procedures.
- Proper amounts of fines, penalties, and interest charges were levied in accordance with the legislation.

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#### Tax Revenue Lost to Smuggling Activities

Before 1985, interprovincial trafficking of cigarettes was often used by smugglers to avoid paying provincial tobacco tax. In late 1984, tighter export regulations were put in place among provinces, permitting cross-checking of interprovincial shipments to ensure that cigarettes would eventually be taxed in the province where they would be consumed.

**However, there has been a drastic increase in tax-exempt sales of cigarettes in the last two years despite generally declining consumption in both the U.S. and Canada. For instance, while cigarette consumption in Canada and the U.S. declined by 12 per cent from 1985 to 1987, export sales to the U.S. doubled during the same period.**

Furthermore, in recent years, the media have reported that:

- Contraband cigarettes have been smuggled into Canada via various means of transportation such as car, truck, small air cargo and even snowmobile.

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- . Tobacco raids by Royal Canadian Mounted Police revealed that oftentimes tobacco smugglers were armed with rifles and machine guns.
- . Canadian Customs Inspectors from a Customs post in eastern Ontario openly admitted their inability to stem cigarette smuggling and expressed serious concerns for their own safety because of such activities.

Consequently, Ministry officials have become concerned that a significant amount of Ontario tobacco tax revenue was being lost due to the smuggling back into the province of Canadian cigarettes from the United States. Since cigarettes for export purposes are exempt from Canadian federal and provincial taxes, smugglers would first export Canadian cigarettes to the United States and then ship them back to Canada illegally. The incentive to smuggle cigarettes is significant given that one fully loaded truck of contraband cigarettes can return a profit in excess of \$500,000 per trip in the form of unpaid tobacco taxes.

If the increase in exempt sales since 1986 was consumed in Canada, we estimate that tobacco taxes lost to the various Canadian taxing authorities would be as much as \$70 million annually. **Accordingly, with almost 40 per cent of the Canadian smoking population concentrated in Ontario, the loss of provincial tax could be \$10 million to \$15 million annually.**

Our review of remedies for reducing tax lost due to smuggling activities indicated that the most practical might be to institute a distinctive marking system for tobacco products designated for export purposes, or otherwise indicate that Ontario tobacco tax has been paid. This may assist consumers to distinguish between tax-paid cigarettes and the contrabands.

We understand that the Ministry has begun negotiations to implement an Ontario marking system in accordance with an announcement in the most recent provincial Budget. We recommended that the Ministry:

- . actively publicize the new marking system once it is in place;
- . impose a stiffer penalty on individuals caught selling and buying contraband tobacco products; and
- . offer attractive rewards for information leading to the discovery of contraband tobacco.

### Improper Tax Exemption Granted

Audit reports issued by the Motor Fuel and Tobacco Tax Branch Auditors in the 1986 fiscal year identified one manufacturer/collector that had been issuing cigarettes to its employees free of charge.

Based on the examination of two years' records, the Branch Auditors reported that the free distribution amounted to over 3 million cigarettes per year. Consequently, about \$100,000 per year of tobacco tax on these cigarettes had not been remitted to the Ministry. The manufacturer indicated that, since 1970, it

## Revenue

### Taxation Collection

had been issuing cigarettes to its employees as quality control cigarettes for their opinions. We were advised that an agreement was made in 1973 between the manufacturer and the then Director of the Branch to exempt these products from Ontario tobacco tax.

However, according to the Tobacco Tax Act, only tobacco products unfit for consumption and those for exportation are to be excluded from tobacco tax. In addition, only the Lieutenant Governor in Council may make regulations exempting any class of tobacco products and persons from the tobacco tax.

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#### LAND TRANSFER TAX

##### Overview

Land transfer tax is imposed on most purchasers of Ontario land. At the highest rate of the graduated tax, residents pay 1.5 per cent of the stated price paid for the property. Typically, the tax is paid when the change of ownership is registered at the local Land Registry Office of the Ministry of Consumer and Commercial Relations.

There is a concern that non-residents will compete with local residents for certain types of Ontario land. As a result, a tax rate of 20 per cent is imposed to discourage the acquisition of agricultural and recreational properties by non-residents. The legislation does provide a deferral mechanism and remission of the 20 per cent tax for non-residents that plan to become residents within a two-year period.

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##### Assessments Properly Calculated

Based on our review of 60 property purchase transactions, we observed that **processing controls were adequate to ensure assessments and refunds were computed accurately and properly authorized** in accordance with the legislation.

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##### Lack of Ministry Control over Revenue Collected

The tax collected by the Land Registry Offices is forwarded monthly to the Province's Consolidated Revenue Fund on behalf of the Ministry of Revenue.

The Ministry receives monthly reports of taxes collected from the Registry Offices. However, **we were not satisfied with the reconciliation process used to ensure that all revenue received on the Ministry's behalf had been deposited to the Consolidated Revenue Fund.**

Our examination of the records of revenue transferred from Consumer and Commercial Relations and **the reports of receipts from Land Registry Offices showed that the unreconciled differences were from \$.3 million to \$3.5 million in any particular month.** Without proper periodic reconciliation to ensure all funds reported by the Registry Offices were ultimately deposited, the

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Province is subject to unnecessary exposure from misappropriation of tax revenue.

### Untimely Assessments Jeopardize Collection and Enforcement Efforts

Under the Land Transfer Tax Act the Ministry may conduct assessment audits to determine the reasonableness of the amount of tax paid. For instance, if the purchase/market price of the property is deliberately understated, the tax paid would be inadequate. If discrepancies are noted, the Ministry issues a formal assessment for the unpaid taxes owing. The Act limits assessment to a four-year period from the date of the transaction unless the Minister establishes misrepresentation on the part of the taxpayer.

Most assessments are undertaken as a result of field audit findings. Factors taken into consideration in determining which transactions should be audited include the amount of tax to be paid, numbered companies, non-resident purchases, and other activities deemed to be of an unusual or high-risk nature. In 1987, about 80 assessments were levied, totalling about \$8 million in additional taxes and interest.

Despite their significant revenue contribution, only about four per cent of staff time was allocated to such field audit activities. Most staff time was spent providing information to the public and processing refunds. As a result, most assessments were not timely. **At the time of our audit, there were about 140 uncollected assessments. Our review of these uncollected assessments showed that over 70 of them had been issued more than four years after the land was purchased. Another 20 assessments were issued under four years by just a matter of days.**

**The significant delays have jeopardized collection and prosecution efforts.** In particular, we observed the following instances:

- Numerous non-resident clients of one lawyer were not assessed the 20 per cent land transfer tax for periods up to seven years. We identified over 50 outstanding assessments against these individuals, which at the time of our audit, totalled over \$7 million in additional taxes and interest.
- Assessments totalling \$360,000 were issued against a corporation in May 1982, about three years after the original transactions took place. A court order was finally obtained to seize the underlying property. However, this was two years after the corporation had been cancelled under the Business Corporation Act.
- Another assessment for \$228,000 was made in April 1986 for a transaction concluded in July 1983. However, the assessed company's assets had already been disposed of in May 1985.
- Four other assessments were made where the underlying parcels of land had already been re-sold and/or transferred prior to assessment. As a result of the disappearance of potential security, these assessments had to be written off.

## Revenue

### Taxation Collection

Since the Act establishes a six-year limit on prosecutions of any offence, the significant delays in assessment have left insufficient lead times for potential prosecutions. We were able to identify only one successful prosecution under the Act since its inception some nine years ago.

To reduce the amount of financial hardship imposed on taxpayers and improve collection and enforcement efforts, we recommended that more effort be devoted to field audit activities.

#### Significant Backlog in Appeals

If an audit has been done and an assessment issued, the taxpayer has 180 days to file a notice of objection. If the taxpayer objects, the files are turned over to the Appeals Branch of the Ministry.

Our review of 108 notices of objection considered by the Appeals Branch in the 1988 fiscal year indicated that:

- 34 appeals had been outstanding for over a year. In one case, a decision had not been made in over three years.
- Only two of the cases had been decided by the Branch during the year.

The legislation provides that upon receipt of a notice of objection, the Minister "shall with all due dispatch" reconsider the assessment and notify the taxpayer of his decision. However, we observed that the Ministry allocated only one person part-time to handle land transfer tax appeals.

#### RESPONSE

A response to our audit report was received from the Deputy Minister on October 12, 1988.

#### GASOLINE AND FUEL TAXES

##### **Uncollected Taxes on Imported Fuels**

*"This recommendation has considerable merit and will be pursued further with the federal government, although federal authorities have traditionally refused to become involved in the collection of provincial taxes on commodities. . . .*

*"At the same time, it should also be recognized that such an agreement would involve certain practical difficulties. For example, even if it could be negotiated, any arrangement to extract taxes from importers at the border entry point into Ontario, would not be without complication, particularly since vast quantities of petroleum products are legitimately trans-shipped through Ontario from the United States for consumption outside Ontario where the tax would be properly payable.*

## Comments on Ministry Audits

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*"The alternative of requiring fuel importers to register with the province is much more simple and effective. Without registration, the importer would not be permitted into the Province. A bond from the importer, as a condition of registration, would provide a fast and effective means of collecting any unpaid tax. Legislative amendments to require registration have been proposed by the Ministry and are now a high priority item. . . . Legal specifications for the necessary legislation have been prepared and will be advanced through the appropriate approval processes.*

*"In the meantime, we have been encouraged by recent federal cooperation in addressing fuel tax issues, . . ."*

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### Significant Evasion of Fuel Taxes through Export Schemes

*"The number of Canadian and American enforcement agencies active in seeking effective means to control the evasion of tax on petroleum products, underscores the complexity of the issue and the seriousness with which it is taken. For its part, during the past few years, Ontario has taken several significant initiatives on this front.*

*"Firstly, in 1985, negotiations commenced to establish a formal exchange of information agreement with New York State, and in 1987, similar arrangements were commenced to establish agreements with six other bordering states.*

*"Final arrangements are now being made to enable a full reciprocal exchange of documentation on traffic in petroleum products.*

*"Secondly, Ontario initiated a co-operation program with Quebec and the Canadian federal government in 1987, to monitor and control the import of petroleum products. In fact, the dye used to mark untaxed fuel, all operating procedures and staff training were provided by Ontario.*

*"Thirdly, during the past three years, Ontario inspectors have conducted several blitzes at border points to monitor export activity and verify products carried against written documentation. It should be mentioned that the volume of traffic makes effective checking extremely difficult, and the number of exit points makes coverage on a 24-hour basis virtually impossible. However, periodic blitzes will continue in order to make tax evasion more difficult.*

*"Fourthly, for several years now, staff from the Motor Fuels and Tobacco Tax Branch and the Special Investigations Branch have shared information with enforcement counterparts from both federal, state and provincial governments. Ongoing contacts with the O.P.P. and R.C.M.P. have been maintained. Based on recent changes in the Ministry of Revenue Act regarding exchange of information, steps will now be taken to seek official membership on the Petroleum Excise Tax Task Force, which was established in June 1988.*

*"The high tax component in fuel prices in Ontario and elsewhere provides a powerful incentive to tax evasion. . . . The vast quantities that can be carried at one time either by road or by water-borne vessel means that large amounts of tax*

## Revenue

### Taxation Collection

*are continuously at risk. In addition, new methods of evasion are being developed and exploited continuously. The Ministry believes that the most effective approach to stemming evasion is a combination of complementary actions that include on-road monitoring and detection, the sharing of information among jurisdictions, and legislative amendments requiring registration, bonding and reporting for importers and exporters of petroleum products. Ontario will continue to pursue these as vigorously as possible."*

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#### TOBACCO TAX

##### **Tax Revenue Lost to Smuggling Activities**

*"The fact that tobacco tax evasion continues to be a concern for all taxing jurisdictions, again underscores the complexity of the issue and the difficulty in finding effective solutions. Again, the high tax component in the price of cigarettes contributes significantly to the attractiveness of evasion. Also, the availability of untaxed cigarettes and the differences in tax rates among jurisdictions, make enforcement particularly difficult. For its part, during the past few years, Ontario has taken several initiatives.*

*"In 1982, when untaxed cigarettes acquired by Indians, ostensibly for consumption by Indians, far exceeded reasonable quantities, Ministry staff worked with the Indian leadership to establish a system of controls using permits and quotas. This effectively limited the number of cigarettes that could be acquired by Indians. This was the first such control measure in North America. Through sharing our experiences, other jurisdictions have followed similarly, most recently British Columbia and Quebec.*

*"In 1984, Ontario took the lead in negotiating an exchange of information agreement involving all Canadian provinces. This was to address the problem of tax evasion through cigarettes being imported to a higher tax jurisdiction from a lower tax jurisdiction without being reported.*

*"In 1986, Ontario went one step further and amended its legislation to require wholesalers who export cigarettes to another jurisdiction to pay the tax first to Ontario. Refunds would be allowed where it could be shown that the cigarettes had been reported to the receiving jurisdiction. These amendments effectively eliminated the practice of claiming exemptions in one province but not reporting tax to the other.*

*"Further, an exchange of information agreement initiated by Ontario has been concluded with New York State. Information on tobacco products is included in that agreement. Negotiations are in progress with six other bordering states to enter into similar agreements.*

*"The Ministry is now working on the design of a marking system that will identify tobacco products on which the Ontario tax has been paid. It will become an offence for unmarked stock to be possessed and distributed at retail, or consumed in Ontario. A vigorous publicity campaign will be undertaken to ensure that the new system is well understood before it comes into effect in the new fiscal year.*

## Comments on Ministry Audits

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*"Consideration has been given to marking only those tobacco products destined for export, since the smuggling of those products back into Canada is a major source of tax evasion. However, since all other tobacco products would remain unmarked, it would not assist to identify cigarettes that were moving from one province to another.*

*"Legislation has now been drafted to substantially increase the penalties for tobacco tax evasion. At the present time, tobacco products that are seized must be returned if a bond is posted, and the bond returned if evidence is produced that the product has been removed from Ontario. The amendments provide that seized product will not be returned unless it can be shown that it was possessed legitimately and that all taxes have been or will be paid.*

*"It is not Ministry practice to offer rewards for information about tax evaders."*

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### **Improper Tax Exemption Granted**

*"... The Branch is aware of this issue. ... The exemption was granted ... for quality control testing purposes. Cigarettes consumed by machine testing have been considered exempt, and this ruling was extended to the case at issue.*

*"There currently are only 150 employees involved in the company's quality control program, substantially fewer than in the 1985/86 period covered by the earlier (Branch) audit. At current rates, the tobacco tax foregone is now approximately \$30,000 annually.*

*"The exemption in question is under review within the Ministry. If that review confirms the Auditor's observation, the exemption will be withdrawn."*

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### **LAND TRANSFER TAX**

#### **Lack of Ministry Control over Revenue Collected**

*"The 'unreconciled differences' to which the auditor refers result from different cut-off dates between the monthly statistical reports provided to (the Branch) by the individual registry offices and the monthly journal from (the Ministry of Consumer and Commercial Relations') head office reflecting deposits of land transfer tax by CCR into the consolidated revenue fund. A proper reconciliation of the two reports could only be effected by CCR as (our Branch) does not receive supporting documentation with regard to all deposits or transactions.*

*"A draft memorandum of understanding was prepared ... and forwarded to CCR in February 1988. (Our Branch) has followed up with CCR to determine the status of that Ministry's review of the proposed agreement."*

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#### **Untimely Assessments Jeopardize Collection and Enforcement Efforts**

*"Most of the cases referenced by the auditor involve non-resident corporations and the question of who is the beneficial owner of the corporation's shares.*

## Transportation

### Design Activity

*"It is very difficult to obtain information on which to base assessments in non-resident land transfer tax cases. Lengthy discussions and exchanges of correspondence with the taxpayer's representative are usually required and often, there are delays while the taxpayer's Canadian Solicitor communicates with his client, living abroad. In many of these cases, it is necessary to await subsequent events to determine whether or not there are appropriate grounds for an assessment.*

*"Increasing staff time available for audits would certainly be useful in reducing the elapsed time for particular audits, and the Branch will examine ways in which this might be achieved. However, . . . the Branch operates under tight budgetary controls and staffing limits. This involves maintaining a balance among several important activities. For example, land transfer tax staff must be available to assist clients and provide direction of land registry office officials so that transactions can be processed expeditiously and tax collected in the proper amounts at the time of registration."*

#### Significant Backlog in Appeals

*"As noted by the auditor, Tax Appeals Branch handled 108 objections under the Land Transfer Act in 1987/88. Of these 108, 74 were actually received during the 1987/88 fiscal year -- three times the number received in each of the preceding two years. However, a simple count of objections is misleading. A total of 94 objections relate to one issue -- the use of corporations as bare trustees in attempts to avoid the 20% rate of tax on agricultural land purchased by non-residents. One legal firm is handling 62 such objections on behalf of various taxpayers. These cases all involve substantial documentation and evidence obtained from non-residents, in most instances requiring translation before review. As these non-resident cases are very similar, we anticipate that they will be resolved as a group on the same basis. Should these assessments be confirmed, it is likely that appeals to the Supreme Court of Ontario will ensue, thus requiring a careful review of all evidence before disposition by Tax Appeals Branch.*

*"An additional Appeal Officer was assigned to land transfer tax workload on June 1st, 1988. We anticipate that the inventory of objections at 31st March, 1988 will have been substantially reduced by the end of the current fiscal year."*

#### 3.13 Improved Efficiency Required, Design Activity, Ministry of Transportation

The Design Activity is responsible for the design of all provincial highway construction projects, including project justification and tendering specifications.

The 1988 fiscal year expenditures for this Activity were \$ 79 million.  
(Vote 3604, Item 2)

#### SUMMARY

#### SCOPE AND OBJECTIVES

In conducting our review of the Design Activity of the Provincial Highways Program, one of our audit objectives was to assess whether adequate controls were in place to ensure that engineering consultants, design staff and related services were being utilized efficiently.

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### CONCLUSIONS AND FINDINGS

#### *UTILIZATION OF CONSULTANTS AND DESIGN STAFF*

**Adequate controls were not in place to ensure resources were being utilized efficiently.**

- . **Payments to consultants consistently exceeded the ceiling price set out in their contracts.**
- . **Wide cost and time variations for similar design work were not being monitored by the Ministry.**
- . **A computerized system, originally scheduled for completion in 1983, was still not functional in 1988 and the cost had increased by over 300 per cent.**
- . **The basis of payment for concrete removal on bridge rehabilitation work encouraged cost overruns.**

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### COMMENTARY

#### **Background**

Provincial highway design work is done primarily at the Ministry's five regional offices. Although approximately 860 designs, or 80 per cent of the total number of designs completed in the 1988 fiscal year, were prepared by regional personnel, a secondary function of the regional offices is the selection and monitoring of design work performed by consultants.

The Ministry's Head Office also plays a role in this activity by providing technical advice, assisting in scheduling the design and construction of projects, maintaining and updating policies and standards and ensuring the uniformity of design across the province.

Approximately 1,200 staff are employed in the Design Activity. Salary and employee benefits represented approximately 60 per cent of the total 1988 fiscal year Design Activity expenditures of \$79 million. Since most of these expenditures relate to the regions, our audit reviewed significant projects at three of the largest regions, Central, Northern and Southwestern, in addition to certain work at the Head Office divisions.

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#### *UTILIZATION OF CONSULTANTS AND DESIGN STAFF*

#### **Need for Improved Control over Consultants' Work**

The planning and design staff of the Ministry are responsible for all aspects in the design of provincial highways such as preparing general plans, detailed drawings, estimates of quantities and other work which must be performed before the specifications can be completed and a construction contract awarded. Design staff are also involved in performing planning functions, such as the identification of future needs and justification of current projects.

## Transportation

### Design Activity

When sufficient in-house resources are not available to perform these functions, engineering consultants are hired by the regional offices. During the 1988 fiscal year, 37 consulting firms were hired for planning and design assignments at an estimated cost of \$19 million.

The Ministry uses a roster rotation system for selecting engineering consultants. This system is based on an equal distribution of assignments to qualified consultants without price competition. The type of assignments awarded under this system are typically the more routine tasks.

After a consultant has been selected and approved, the Ministry negotiates the fee, including a ceiling price. This fee is based upon an assessment of known information, judgement by both parties on the hours required to perform the work, the hourly rates for the consultant's staff assigned to the project, a payment formula and specific terms of reference for the work to be performed.

In addition, the selection of a particular consultant was usually supported by comments such as "demonstrated capabilities and experience" and "familiarity and background with the project". This would imply that the consultant had the experience necessary to make a reasonable estimate of the amount of time required to perform the specified services.

**Despite the preceding, consulting costs frequently exceeded ceiling prices by significant amounts.** Based on a review of a number of consultant project files, it was evident that there was little incentive for the consultants to complete the work within the agreed upon timeframe and price. The Ministry had experienced considerable difficulty, particularly in the Central Region, in negotiating ceiling prices that would remain in force throughout the assignment. In this region we noted the significant escalation of costs on various projects. For instance :

- In one contract, the consultant was to provide detailed design services for the Hwy. 7 reconstruction, widening and interchange project. The agreement was signed in 1982, with a ceiling price of approximately \$567,000, and the work was to be completed in 1983. However, the work was not completed until 1987 at an approximate total cost of \$1.1 million. Correspondence between the Ministry and the consultant indicated that the costs of the project had been poorly controlled.
- A ceiling price of approximately \$436,000 was established for the provision of detailed design services for a reconstruction project on the QEW near St. Catharines. The work was to be completed in 1979. However, the work was not completed until 1982 and the final cost of the assignment was approximately \$1.3 million. Ministry correspondence indicated that the time taken by the consultant to complete the assignment was unreasonable.
- In another assignment, a ceiling price of \$225,000 was established for the provision of preliminary design services for sections of Hwy. 407 and

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Hwy. 7. The agreement was awarded in 1978 and the work was to be completed in 1979. However, the work was not completed until 1984 at an approximate total cost of \$873,000.

Correspondence in Ministry files indicated a need for better planning and preparation of projects together with a clear definition of the scope of the work to be done. Consultants also indicated a lack of direction and control by the Ministry staff over day-to-day operations.

We recommended that the Ministry exercise better control over consultants to ensure that costs are contained within the established ceiling price, particularly since consulting assignments are not tendered and are generally for routine assignments where the required time can be more accurately estimated.

### Better Monitoring of Design Cost and Time Required

In 1986, the Ministry developed an information system known as the Unit Cost Reporting System. One of the primary purposes of the System is to provide Head Office with the information necessary to monitor, control and compare the time taken on design activities throughout the province. For instance, significant deviations in time and costs between regions for the same type of work warrant investigation. Also, Head Office uses the System to evaluate the comparative cost effectiveness of performing the work in-house rather than using consultants.

**From our review of the reports produced for the 1986 and 1987 fiscal years, we noted wide variations in the unit costs of specific operations between regions. We also observed that no one at Head Office was reviewing or analyzing the information generated by the System. The following examples are indicative of areas we felt warranted review:**

- . The average unit cost per region for in-house detailed design of re-surfacing projects ranged from \$660 to \$56,000 per million dollars of construction value.
- . The average unit cost per region for in-house detailed design of reconstruction projects ranged from \$820 to \$37,000 per million dollars of construction value.
- . The average unit cost for the detailed design of reconstruction projects performed by consultants ranged from \$5,500 to \$69,000 per million dollar of construction value.

Regional staff questioned the accuracy of the data input and calculations of the System. Regional staff also felt that the reports were not useful since unit costs are only developed once a year and comparative data is not available until several months after year-end.

## Transportation Design Activity

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We were informed that when the System was first developed, the Ministry anticipated that it would be several years before an information base existed from which comparisons could be made and conclusions could be drawn. While we support the Ministry's initiative in developing the System, increased monitoring of the data presently being generated is essential not only to aid management in identifying possible inefficiencies but also to ensure the underlying database is accurate.

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### Development Project Five Years Overdue

Until 1979, the Ministry had used a large number of computer programs to aid in the design and analysis of highway structures. For instance, if the basic specifications of a bridge or overpass were inputted, a program would calculate many of the detailed specifications, such as the type and amounts of steel, asphalt, etc., that would be required. These programs had been written over the previous 15 years and were in accordance with the highway specifications set out by the American Association of State Highway and Transportation Officials.

In 1979, the Ministry recognized that these programs no longer fully met the needs of the design of highway structures in the province and proposed a new computer software program called the Ontario Modular Bridge Analysis System. The major benefits that were to be realized from the System included reductions in construction costs due to improved design and the examination of more alternatives, reduced design time, and greater uniformity and implementation of standard methods and solutions.

An advisability study completed in September 1980 recommended creating the System at an estimated total cost of \$730,000. A preliminary design report completed in September 1981 revised this estimate to \$840,000.

**By March 31, 1988 the total cost of the System had escalated from \$840,000 to \$3.4 million. We noted that :**

- Systems development projects with total estimated costs in excess of \$100,000 require Management Board approval prior to initiation. There was no evidence of specific Management Board approval for the initial stages of the System's development. Management Board approval was obtained in the latter stages for part of the escalating costs (\$62,000).
- The development of the System lacked management review and direction. The Steering Committee established to monitor the development, met only twice, on July 22, 1982, and August 22, 1985, and no terms of reference were ever established for it.

**The implementation schedule prepared in September 1980 indicated that the System would be fully operational by September 1983. However, we noted that the project was still not completed. The major causes cited for the delay in the development and implementation of the System included:**

- a lack of understanding of the complexity of the System by the project teams;

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- a lack of communication among the project groups involved in the System's development; and
- no formal methodology in the development of the System, which caused confusion among project members as to what direction to take.

In addition, the System had not gained general user acceptance. For instance, staff were resistant to the changes in their work methods brought about by the System.

We recommended that management develop a coordinated action plan involving all parties to address the present systems problems.

### Savings Possible in Concrete Removal

In preparing design specifications for the removal of concrete on bridge rehabilitation, there are two different methods on which payment is based. One payment method is based on the area or volume of concrete to be removed when this can be accurately estimated during the design phase. However, the method used in most rehabilitation contracts bases payment to the contractor on the number of hours taken by the contractor's crew to remove the concrete.

A report published by the Structural Office of the Ministry in June 1987 recommended that the basis of payment for concrete removal be changed from crew hours to area or volume of concrete removed because of the noted disadvantages. **The report also noted that when payment was based on crew hours, the average cost of removing concrete was \$2,185 per cubic metre whereas the average cost was \$103 per cubic metre when payment was based on area or volume.**

Using crew hours as a method of payment has several disadvantages over a method based on area or volume in that it provides no incentive to the contractor to work as fast as possible. Furthermore, extensive inspection is required by Ministry staff to ensure that a full crew is in operation and that an efficient average removal rate is maintained. **We estimated that the use of crew hours as a method of payment resulted in cost overruns of up to \$1 million in the 1987 fiscal year.**

### RESPONSE

We received the following reply from the Deputy Minister.

### ***Need for Improved Control over Consultants' Work***

*"Establishing the ceiling price for consultant services on planning and design assignments is reasonably easy to accomplish when all influencing factors are stable and can be accurately forecasted over the life of the assignment. . . . It should be appreciated that the rural lands surrounding . . . (the Highway 7 project were) under intensive urban development causing land purchases, utilities, road access requirements, and staging of the works to be modified*

## Transportation

### Design Activity

*subsequent to the initial consultant's assignments. With respect to the consultant assignment in the QEW-St. Catharines area, the design for reconstruction proved to be more complex than first estimated, although we agree added control should have been placed on the consultant's work.*

*"We agree greater efforts should be placed in the preparation of estimates and payments to consultants particularly in Central Region where assessment of the work to be done is much more difficult to estimate. Further, we plan to appraise the performance of consultants' work both at the end of the assignment and at the completion of construction. Unacceptable consultant work will certainly affect the award of further assignments."*

### Better Monitoring of Design Time Required

*"The Provincial Auditor's report notes the Ministry's development in 1986 of a Unit Cost Reporting System intended to monitor, control, and compare the costs of design activities through the five Regions. Further, it is noted this new system has not produced dependable data for the purpose intended. We can agree with these observations and readily accept the recommendation to continue to review and refine the (System). The Ministry recognizes (the System) to be a management tool to bring added uniformity and control to our planning and design activities."*

### Development Project Five Years Overdue

*"The Ministry project team was aware of the complexity of developing the (Ontario Modular Bridge Analysis System) project but grossly underestimated the time it would take to complete it. While communication of the OMBAS project to senior administration could have been better it was quite adequate at the technical working levels. . . .*

*"... the Ministry will again establish an OMBAS steering committee charged with giving the project both review and direction. The first task will be to report on OMBAS accomplishments and preparation of a forecast of activity, time and costs to complete the project."*

### Savings Possible in Concrete Removal

*"The Provincial Auditor has noted the Ministry pays its contractors for concrete removed on bridge deck rehabilitations by the crew hour. Alternate payment methods, such as payment by removed area or volume (of concrete) have been used previously and (were) discontinued, primarily as the extent of the work could not be accurately established beforehand.*

*"More recently the Ministry has re-evaluated its rehabilitation work requirements in the context of achieving more durable bridge decks. It has been determined that it is desirable to remove all suspect concrete in determined areas where*

## Comments on Ministry Audits

*ambient voltages in the steel exceed a specified value. Alternatively more durable work will result if the delaminated concrete is removed about one inch below the upper course steel. This change in work method will allow for a much improved estimation of the concrete quantities to be removed.*

*"It is the Ministry's intent to move towards payment by the square metre for concrete removal in bridge deck rehabilitations."*

### 3.14 Opportunities for Cost Reductions, Municipal Roads Program, Ministry of Transportation

The objective of the Municipal Roads Program is to financially assist municipalities by providing subsidies for road maintenance and construction.

During the 1988 fiscal year, the Ministry provided municipalities with subsidies totalling \$628 million. (Vote 3607, Item 2).

#### SUMMARY

#### SCOPE AND OBJECTIVES

In conducting our audit of the Municipal Road Subsidies we reviewed activities at the Ministry's Head Office, and visited five districts and four municipalities to assess the degree to which they monitored their construction projects.

Our audit objectives included assessing the adequacy of:

- . controls over the allocation and payment of subsidies to municipalities.
- . monitoring of expenditures incurred by the municipalities.

#### CONCLUSIONS AND FINDINGS

##### SUBSIDY ALLOCATION AND PAYMENT

**Controls over the allocation and payment of municipal road subsidies to municipalities were adequate.**

##### MONITORING OF MUNICIPAL EXPENDITURES

**Monitoring of municipal road construction expenditures was more than adequate, perhaps even excessive. However, there was virtually no monitoring of municipal maintenance expenditures which comprised almost 50 per cent of total subsidies. We observed that:**

- . Field visits to construction sites of large municipalities could be reduced significantly.
- . Expenditures for similar maintenance activities varied widely among municipalities.
- . Substantial annual savings could result from the introduction of cost control measures over maintenance expenditures.

## Transportation

### Municipal Roads Program

- Approximately \$2 million annually could be saved if the Ministry set a maximum level at which municipal employees' fringe benefits would be subsidized.

#### COMMENTARY

#### SUBSIDY ALLOCATION AND PAYMENT

##### Overview

There are 105 employees in the Municipal Roads Program. Of these, 23 were located at Head Office and 82 at the 5 regional and 18 district offices. Regional and district personnel are responsible for approving individual municipal construction contracts, design specifications and plans for subsidy purposes. They also provide technical and policy advice to municipalities.

For purposes of determining municipal subsidies, the Ministry groups the Province's 885 municipalities into three categories: upper tier, large lower tier and lower tier. Municipalities are placed in these categories based upon population, level of road and bridge expenditures, and number of urban kilometres. Typically, the annual allocation process to the various tiers is based on the previous year's amount with some inflationary adjustment.

Allocation to the various municipalities within each tier is done through a series of formulas. The construction allocation formula, for example, considers such factors as the current quality of roads, the dollar value of construction projects as determined by municipally prepared needs studies, and the municipality's ability to finance the road work itself.

The Ministry allows municipalities to decide how the subsidies are to be spent, e.g. how much will be spent on maintenance versus construction, what type of construction (resurfacing vs. construction) is undertaken, etc.

##### Adequate Allocation and Payment of Subsidies

During our review of the basic allocation procedures, we noted that the **methods used to allocate the total subsidies available were generally sound and were directed at arriving at an equitable allocation which took into account both the needs and the funding capabilities of municipalities.**

In addition, we were well satisfied with the controls over the payment of subsidies.

#### MONITORING OF MUNICIPAL EXPENDITURES

##### Re-evaluation of Field Visits Needed

During 1987 municipal subsidies for construction purposes were \$307 million.

District personnel spent approximately 50 per cent of their time in field visits. Visits to construction projects are made to ensure that they are being built according to design, that proper administrative procedures are in place at construction sites and to advise municipalities on policy and technical matters.

## Comments on Ministry Audits

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Field visits are either planned by district personnel or can be requested by municipalities.

Since most construction projects are funded by both the municipality and the Ministry, it is in the municipality's best interest to ensure that good expenditure controls exist. We visited four upper and large lower tier municipalities to assess the degree of municipal monitoring of their construction projects. We noted that municipal control over construction projects was good. Therefore, we were not convinced that regular field visits by district personnel were necessary.

**All municipalities that we visited felt that they did not really need technical advice from district office staff.** Discussions with district office personnel also confirmed that project reviews may not be essential for many upper tier and large lower tier municipalities since they had good controls over construction projects.

We acknowledged that for smaller municipalities with less staff and resources, district office staff provided valuable technical and administrative assistance. However, **since the upper tier and the large lower tier municipalities have their own qualified staff to supervise and control these projects, we felt that field visits to these municipalities could be reduced significantly.**

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### Little Control over Municipal Maintenance Costs

#### *Overview*

Maintenance expenditures for the upkeep of the road system include expenditures for winter control, direct and indirect maintenance expenditures. Winter control expenditures are primarily sanding, salting, snowplowing and snow removal. Direct maintenance includes ditching, curb and gutter maintenance and catchbasin maintenance. Indirect maintenance expenditures include grass cutting, street cleaning and debris and litter pickup.

In 1987 municipal subsidies for maintenance purposes were \$271 million, of which \$68 million was for winter control, \$133 million for direct maintenance and \$70 million for indirect maintenance.

We reviewed selected maintenance expenditure data to assess whether the Ministry was monitoring municipalities to ensure they were spending funds on maintenance in a prudent manner.

We selected 22 upper tier and 17 large lower tier municipalities and analyzed indirect maintenance and winter control costs for 1986 and 1987 from annual returns submitted by them.

#### *Variations in Indirect Maintenance Costs*

We reviewed five specific indirect maintenance activities, which together, in 1987, accounted for \$53.6 million, or 77 per cent of the total subsidy dollars paid for indirect maintenance. **Our review of the five activities revealed a wide variation in such costs across the Province.** For instance:

## Transportation

### Municipal Roads Program

| Activity                           | Upper Tier<br>Municipalities |     | Large Lower Tier<br>Municipalities |     |
|------------------------------------|------------------------------|-----|------------------------------------|-----|
|                                    | Cost per km                  |     | Cost per km                        |     |
|                                    | High                         | Low | High                               | Low |
|                                    | \$                           |     | \$                                 |     |
| Grass cutting/weed spraying        | 277                          | 14  | 606                                | 60  |
| Tree planting/removal/<br>trimming | 204                          | 6   | 1,556                              | 33  |
| Debris and litter pickup           | 111                          | 3   | 844                                | 75  |
| Street cleaning                    | 51                           | 6   | 1,100                              | 139 |
| Sign maintenance and<br>materials  | 204                          | 25  | 618                                | 108 |

The preceding analysis does not take into account variables such as geographical locations which could have an impact on maintenance costs. Therefore, the analysis was extended further by comparing the indirect costs for these five activities between geographically close municipalities in 1986 and 1987.

- **The City of Guelph spent nine times as much per kilometre for grass cutting/weed spraying as the neighbouring City of Kitchener.**
- **The City of Hamilton spent ten times as much per kilometre for tree planting/removal and trimming as the City of Burlington.**
- **The City of Hamilton spent three times as much per kilometre for street cleaning as the City of Burlington.**

We also noted large increases in indirect maintenance costs from one year to the next. These costs should not show large variations from year to year since they are not as dependent upon uncontrollable factors such as the weather. Examples of large increases from 1986 to 1987 were as follows:

- **Belleville's streetsweeping costs increased by 1,000 per cent.**
- **Elgin County's tree planting/removal/trimming costs rose by 160 per cent.**
- **Several municipalities had large increases in debris and litter pickup costs. For example, the counties of Prescott and Russell experienced an increase in costs of 187 per cent, Frontenac County, an increase in costs of 235 per cent, and the City of Cornwall, an increase in costs of 700 per cent.**

#### *Variations in Winter Control Costs*

Two specific activities were selected for detailed comparison: sanding/salting and snow removal/plowing. We estimated that these two activities represented \$61 million, or 90 per cent, of the \$68 million allocated for winter control in 1987. While some fluctuation would be expected based on varying weather conditions, the differences were wider than we had anticipated.

## Comments on Ministry Audits

| Activity             | Upper Tier<br>Municipalities |     | Large Lower Tier<br>Municipalities |     |
|----------------------|------------------------------|-----|------------------------------------|-----|
|                      | Cost per km                  |     | Cost per km                        |     |
|                      | High                         | Low | High                               | Low |
|                      | \$                           |     | \$                                 |     |
| Sanding/salting      | 850                          | 163 | 2,463                              | 500 |
| Snow removal/plowing | 683                          | 169 | 3,311                              | 771 |

Comparisons were then made for these two winter control activities for geographically close municipalities. Again, our review noted significant differences.

- Oxford County spent one and a half times as much per kilometre for snow removal/plowing as Brant County in 1987.
- The City of Hamilton spent twice as much per kilometre for snow removal/plowing as Burlington in 1986 and 1987.

### *Increased Monitoring of Maintenance Expenditures Is Required*

District office staff could not provide us with explanations for the large variances we noted. A shortage of staff and inadequate computer equipment facilities were cited as the main reasons for deficiencies in the lack of comparative analysis.

**We concluded that while controls over construction costs are more than adequate, municipal maintenance expenditures, which constituted almost 50 per cent of the total subsidies, are not subject to any cost controls whatsoever.** District office staff concentrate almost exclusively on construction work and although the Municipal Roads Office is aware of varying overall cost/km for municipal maintenance, these costs are not analyzed or monitored.

**Based upon our analysis of maintenance costs, we estimate that the potential exists for annual savings in excess of \$20 million if the Ministry more closely monitored maintenance costs and if reasonable spending limits were placed on these expenditures.** Any savings brought about by greater economy and efficiency in maintenance costs could be channelled into increased funding for municipal construction projects.

Given the availability of expertise within the Ministry, consideration should be given to conducting operational or value for money audit work at municipalities incurring comparatively higher maintenance costs. This audit work could be conducted concurrently with the periodic audits by the Municipal Audit Bureau to minimize any disruption or inconvenience at the municipal level.

### **Disparities in Municipal Fringe Benefit Expenditures**

Municipalities are subsidized for the payroll fringe benefits for employees who perform road, bridge and other eligible road work. There are no limits placed by the Ministry on fringe benefits that can be claimed by municipalities as long as it can be shown that these costs were incurred by them. During the 1987 fiscal

## Transportation

### Municipal Roads Program

year, we estimated that total fringe benefits for all municipalities amounted to \$58 million, of which approximately \$30 million was subsidized by the Province.

We reviewed municipal fringe benefit costs in four of the 18 district offices and also compared these fringe benefit costs to those paid by the Province of Ontario for their employees. We noted there were wide disparities in fringe benefits claimed by municipalities which ranged from a low of 19 per cent to a high of 54 per cent of salaries. The disparities were mainly due to the unproductive labour component, such as vacation time, sick days, etc., which seemed to be more generous in municipalities than in the Province.

Although the Ministry's policy is to pay fringe benefit costs as long as such costs are incurred by municipalities, we felt that a reasonable limit should be placed on these costs, especially since they do not directly contribute to the quality of the roads. **Using the Province of Ontario's fringe benefit percentage of 29 per cent of salary cost as the maximum allowable, and applying this to the 18 districts across the Province, we estimated that approximately \$2 million annually would be available for re-allocation.**

#### RESPONSE

The Deputy Minister replied to our findings and recommendations on October 11, 1988.

#### MONITORING OF MUNICIPAL EXPENDITURES

##### **Re-evaluation of Field Visits Needed**

*"Ministry policy only requires a limited number of such visits to ensure that proper controls are in place on municipal project. . . . A recent audit by the Ministry's Internal Audit Branch discussed the issue of accountability in this and other areas, and expressed some concerns that the necessary controls may not be strong enough. Management Board presently has a project underway to confirm accountability for transfer payments.*

*"My staff already have plans to review this item . . . .*

*"In the meanwhile, I am satisfied that these field visits continue to be essential to the proper administration of the program."*

##### **Little Control over Municipal Maintenance Costs**

*"The Ministry has recognized the right of each municipality to set its own standards for items such as those reviewed in this report because of the differing needs and circumstances of each municipality.*

*"For example, . . . there are different requirements in urban areas as compared to less developed rural areas . . . . The type of development and local land use will affect such activities as street cleaning or litter pick-up needs. In addition, the reporting practises of individual municipalities are not always similar, making comparisons difficult. Geography, can also have a strong impact on costs. . . .*

## Comments on Ministry Audits

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*"For these reasons, we . . . allow each municipality to set its own standards. Instead, the Ministry does limit subsidy through its allocation process to average levels of service. Many municipalities choose to provide a higher level of service and overspend their allocations. Where the Ministry has become aware and has determined that such activities are being undertaken for non-road reasons, adjustments have been made. In addition, the Ministry has previously encouraged larger municipalities to adopt Maintenance Management systems. It is also providing support to the Ontario Good Roads Association for its productivity Improvement Program.*

*"We do not believe that the (identified) savings . . . can, in fact, be realized because of the (preceding) reasons. Nevertheless, we will be requiring our staff to pay greater attention to these activities when reviewing Annual Returns and in discussions with the municipalities."*

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### **Disparities in Municipal Fringe Benefit Expenditures**

*" . . . the roads staff are only a portion of the total municipal staff.*

*"The Ministry has not seen fit to influence individual municipal agreements . . . . Such a practise could have a number of implications in other government programs. We will discuss the issue with the Ministry of Municipal Affairs to determine if further action is appropriate."*

## CHAPTER 4

### COMMENTS ON CROWN AGENCY AUDITS

#### 4.1

#### Introduction

The term Crown agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. Agencies of the Crown and Crown controlled corporation audits for the year ended March 31, 1988 are listed, respectively, in Exhibits 3 and 4.

The annual audits of Crown agencies are primarily designed to express an opinion on whether the agencies' financial statements are presented fairly. While there have been some qualifications of opinion involving accounting matters and audit scope limitations, in no case did the auditor express either an adverse opinion or an inability to provide an opinion on the financial statements.

In addition to the attest audits several agencies are selected by this Office each year for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

Significant matters identified in both attest and broader scope audits are included in this chapter.

#### 4.2

#### Operational Improvements Required, Liquor Control Board of Ontario

The Liquor Control Board of Ontario regulates the sale and transportation of liquor throughout the Province and establishes stores for the sale of liquor to the public.

Liquor sales by the Board for the 1988 fiscal year totalled \$1.9 billion while the Board's net income was \$641 million. The Board's audited financial statements for the year ended March 31, 1988 are reproduced in Volume 2 of the Public Accounts.

#### SUMMARY

#### OBSERVATIONS

Our current year's audit highlighted the following matters:

- . Improved cash forecasting could have reduced interest charges by more than \$450,000.
- . Excess bank service charges resulted from the use of multiple banks and inadequate verification procedures.
- . Bookkeeping errors in inventory records amounted to \$14 million.

#### COMMENTARY

#### CASH MANAGEMENT

#### Improved Cash Forecasting Needed

At the beginning of each fiscal year the Board's Finance Division, in consultation with the Ministry of Treasury and Economics, prepares a schedule indicating

## Comments on Crown Agency Audits

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weekly remittances of net profits to the Treasurer of Ontario. This schedule is based on the previous year's schedule, adjusted for any known or anticipated fluctuations in cash flow. During the 1988 fiscal year the Board remitted \$635 million to the Treasurer.

In 1986 we had reported that the Board was in an overdraft position, averaging approximately \$6 million during the year, and had incurred interest charges of approximately \$725,000. We had recommended a more careful monitoring of cash flows and periodic adjustments of profit transfers, in order to minimize overdrafts and the resulting overdraft interest charges.

Our current year's audit revealed that the Board's major bank account was overdrawn by more than \$62 million as at March 31, 1988, and that overdraft interest charges for the year exceeded \$3.5 million.

To the extent that the Treasurer's cash needs are reduced by the Board's excess transfers, the Treasurer's interest expense costs are proportionately reduced. However, the Treasurer can borrow money at a rate lower than the Board's bank overdraft rate. Consequently, **we estimated that overall the Ontario Government could have saved more than \$450,000 during the 1988 fiscal year had the Board been able to eliminate the overdraft position.**

We noted that the Board was taking appropriate steps, in conjunction with the Ministry of Treasury and Economics, to adjust its profit transfers to the Treasurer. We also noted that the Board had eliminated its overdraft at the bank.

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### Review of Bank Service Charges and Overdraft Interest Recommended

During our 1986 audit we had recommended that the Board consider using one instead of six chartered banks to reduce bank service charges. In November 1987 the Board, through tender, awarded the bulk of their banking services to one bank but continued to maintain accounts, for store deposits, at five other chartered banks. **During the 1988 fiscal year this arrangement resulted in a small reduction in bank service charges at the Board's principal bank. However, 1988 service charges at the other five chartered banks increased by \$223,000 to \$1,526,000.**

Our discussions with Board management revealed that bank service charges were not regularly reviewed or verified. **We noted that in March 1988 one bank unilaterally increased its charges from \$324,000 to \$624,000 per year. The Board had not questioned this increase in charges prior to our audit.** However, we noted that the Board subsequently initiated action to reduce bank service charges at this bank.

We further observed that the Board had not verified the accuracy of the 1988 bank overdraft interest charges totalling \$3.5 million. **On 10 occasions, involving errors of \$1.2 million, the Board was either double-charged or overcharged by a bank. Nine of the errors were subsequently detected and corrected by the bank. The remaining error of \$89,000, representing**

## Liquor Control Board of Ontario

interest double-charged by the bank, was discovered during our audit. We were subsequently informed that the error had been corrected and the money refunded to the Board.

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### INACCURATE INVENTORY RECORDS

The Board's inventory of liquor, wine and beer, as at March 31, 1988, was valued at \$182 million (cost). This inventory included goods in the LCBO stores, warehouses and goods-in-transit from suppliers.

To verify that the Board's inventory was accurately recorded, we performed test counts at all the warehouses and at a sample of stores. We subsequently traced the test counts to the Board's inventory records. **Our testing of these records revealed significant bookkeeping errors, both understatements and overstatements, totalling \$14 million.** The most significant errors were adjusted for year-end reporting purposes.

The following is a sample of the errors:

- At the year-end, goods on hand totalling \$4.7 million were inadvertently omitted from the Board's inventory records.
- Our testing of approximately 850 entries on the Board's foreign goods-in-transit listing identified 250 errors totalling \$3.7 million.
- A journal entry for \$1.5 million of foreign goods was entered twice in the records.
- We identified 28 errors, totalling \$850,000, in approximately 100 domestic goods-in-transit orders.

Similar bookkeeping errors had been noted in prior years' audits. We again recommended that the Board establish and apply proper accounting procedures to ensure accurate inventory records.

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### RESPONSE

The Board's Chairman and Chief Executive Officer responded to our report on October 13, 1988.

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### CASH MANAGEMENT

#### **Improved Cash Forecasting Needed**

*"We recognize the need for increased emphasis on cash and treasury management practices in our organization. Accordingly, we have taken the following corrective measures:*

- *The Board of Directors, on June 14, 1988, resolved that borrowing money to meet transfer payment schedules is an unacceptable business practice and should be discontinued.*

## Comments on Crown Agency Audits

- *We are presently reviewing the monetary transfer policy with officials of both the Ministry of Consumer and Commercial Relations and the Ministry of Treasury and Economics in order to enable us to make remittances only when funds are available.*
- *As of September 10, 1988, inventory investments have been reduced by approximately \$39 million compared to the same period last year. This reduction has had a positive impact on cash flow resulting in the elimination of the bank overdraft as early as June, 1988.*

*"In addition, we plan, by March 1989, to create a separate treasury function in the Finance Division to develop and implement a system to improve and monitor cash management practices so as to prevent situations identified in your report from recurring."*

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### **Review of Bank Service Charges and Overdraft Interest Recommended**

*"As indicated in your report, we have achieved a reduction in bank service charges related to our head office banking transactions through tendering and consolidating all receipts and disbursement activities into one concentration account. An improved deposit interest rate was also a result of this tendering process. The net increase in bank service charges, however, was a result of depository services provided to our stores by the banks throughout the province. As current banking agreements expire, we propose to tender all depository services in 1989 in order to further reduce service charges. In the interim period, corrective action has been taken concerning the bank which proposed a substantial increase in fee structure. We have transferred our business to another bank with a better rate, thereby reducing banking fees by \$300,000 per year.*

*"As to the control weaknesses related to the bank charges, we have instituted the following measures:*

- *The validity of all service charges is being verified monthly.*
- *The accuracy of service charge calculations is being checked.*
- *Supervisory review and approval of the above are being performed.*

*"It is our view that the aforementioned steps will detect and rectify any calculation errors and invalid bank service charges."*

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### **INACCURATE INVENTORY RECORDS**

*"In view of the significant errors discovered, we will devote more attention to our fiscal year-end inventory valuation procedures and record-keeping. In this regard, we will implement the following:*

- *Prior to the next fiscal year-end, formal procedures will be developed and clearly communicated to all departments involved in determining the financial statement inventory figures. The Finance Division will coordinate this initiative.*

## The McMichael Canadian Collection

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- *A more conscious effort will be made throughout the organization to ensure accurate and reliable inventory records are maintained. This will include periodic supervisory review and spot-checking of inventory valuation items."*
- 

### 4.3 Acquisitions, Safeguards and Other Matters, The McMichael Canadian Collection

McMichael started with 163 works of art donated to the Province by Robert and Signe McMichael in 1965 and has increased its collection, through donations and purchases, to approximately 3,800 works in 1988. These works have been estimated by management, for insurance purposes, to be worth \$100 million.

McMichael's total revenue and profits from ancillary income for the 1988 fiscal year was approximately \$2.9 million which included \$2.2 million in grants from the Province of Ontario and \$.2 million from admissions fees from the 140,000 visitors. Total operating expenditure for the year was approximately \$2.9 million.

#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit included an assessment of McMichael's procedures for the acquisition of works of art and for their care and control.

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#### CONCLUSIONS AND FINDINGS

##### ACQUISITIONS

**Satisfactory procedures were in place over the acquisition of works of art.**

##### CARE AND CONTROL

**Satisfactory procedures had been established to govern the care and control of works of art. However, one key control procedure, the annual physical inventory of works of art, had not been carried out since 1983.**

##### OTHER MATTERS

**The intended uses of works of art were not identified, nor had their exhibition histories been recorded until recently.**

**A management initiated study of McMichael's safety and security systems revealed major deficiencies.**

**McMichael's Capital Master Plan proposed a \$54 million project with completion over the next five years.**

## Comments on Crown Agency Audits

### COMMENTARY

### ACQUISITIONS

#### Satisfactory Procedures

The focus of the collection, according to the McMichael Canadian Collection Act, is to be on art work and objects created by:

- . Tom Thomson, Emily Carr, David Milne, A.Y. Jackson, Lawren Harris, A.J. Casson, Frederick Varley, Arthur Lismer, J.H. MacDonald, Franklin Carmichael;
- . the indigenous peoples of Canada,

and other artists who have made contributions to the development of Canadian art and whose art work and objects will be consistent with the general character of the collection.

Works of art are acquired by McMichael through purchases or donations. Donors are issued income tax receipts for the appraised value, based on independent valuations obtained from qualified appraisers.

Acquisitions during the calendar years 1985 to 1987 are summarized below.

|           | 1985       |                   | 1986       |                  | 1987       |                   |
|-----------|------------|-------------------|------------|------------------|------------|-------------------|
|           | No.        | Appraised Value   | No.        | Appraised Value  | No.        | Appraised Value   |
| Donations | 308        | \$ 334,000        | 116        | \$305,000        | 233        | \$ 600,000        |
| Purchases | <u>63</u>  | <u>245,000</u>    | <u>56</u>  | <u>338,000</u>   | <u>220</u> | <u>316,000</u>    |
| Total     | <u>371</u> | <u>\$ 579,000</u> | <u>172</u> | <u>\$643,000</u> | <u>453</u> | <u>\$ 916,000</u> |

These acquisitions represent an increase of 36 per cent in the number of objects held in 1984.

Established criteria are used to assess whether works of art or objects should be added to the collection. These criteria include whether:

- . The object is consistent with the legislated objectives of McMichael;
- . The object will be displayed and used;
- . The donor/vendor has clear title to the object; and
- . The object is authentic and in sound condition.

McMichael's curator is responsible for authenticating the works of art. This entails visual inspection, examination of documentation supporting the work, tracing the history of ownership, and a comparison of works completed by the same artist in the same time period. McMichael's conservator also examines the work of art and prepares a report providing an assessment of its condition.

Each acquisition must be justified by the curator to an Acquisition Committee comprised mainly of Board of Trustee members. Once the object is approved by the Committee, and subsequently by the full Board, documentation to support the addition must be maintained on file.

## The McMichael Canadian Collection

Our tests of acquisition procedures did not reveal any significant deficiencies.

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### CARE AND CONTROL

#### Adherence to Procedures

McMichael's Collection Management Policy provides for the care and preservation of the collection.

This Policy is consistent with the procedures recommended by the International Council of Museums. When a work is acquired it must be assigned an identification number and be described and photographed. Records are to be kept showing the current location of all works of art. A yearly physical inventory must be conducted and, in addition, at least two spot checks are to be made annually verifying the location of at least 50 objects. The Policy also requires a regular survey of the condition of all works displayed, loaned, shipped or conserved.

**Our tests for compliance with these provisions of the Collection Management Policy indicated that one key control procedure, the annual physical inventory of works of art, had not been carried out since 1983. Further, the biannual spot checks of at least 50 objects were not being performed by management.** We also noted that :

- . the condition of works of art was being satisfactorily monitored; and
- . identification numbers and descriptions existed for 30 works of art examined, but nine works acquired from 1984 to 1987 did not have photographs on file.

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### OTHER MATTERS

#### Intended Use and Display History of Works of Art Not Identified

One of McMichael's legislated objectives is to hold and display acquired works of art. In July 1988 McMichael held 3,800 works of art, and had on display approximately 750 works representing 20 per cent of its collection.

The main criterion used in acquisition decisions is whether the work of art will be displayed and used. However, according to management, works of art are also acquired for their holding (archival) value. We noted that **management information was not available to identify which works of art were acquired solely for archival versus display purposes.**

In addition, the registrar advised us that **information on the exhibition history of works of art has generally not been maintained.** Our review of the files for 30 works of art indicated no history of display for 28 works. Furthermore, at the time of our audit 15 of these works were not on display and the registrar could not remember when nine of the objects were last displayed.

## Comments on Crown Agency Audits

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One of the nine works of art was a painting by Lawren Harris which was acquired in 1980 with an appraised value of \$50,000.

Recently, however, McMichael has started recording the exhibition history of its works of art.

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### Improved Safety and Security Systems Recommended

Between October 1981 and May 1983, McMichael was closed for major renovations costing approximately \$11.5 million. Some of these renovations were made to improve security systems and to comply with the structural and safety standards of relevant authorities.

In October 1987 management initiated an external study of the effectiveness of safety and security systems. **The study, completed in November 1987, concluded that a major upgrading of the systems was required to meet acceptable and practicable standards.**

At the conclusion of our audit, management had implemented, or was in the process of implementing, the study's recommendations.

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### Capital Project Planned

In November 1987 McMichael hired a consulting firm to develop its Capital Master Plan to the year 2000. According to the Plan, the present log and stone structure will require costly renovations over the next 15 to 20 years unless the usage of certain galleries and wings is altered. The renovations will be necessary, in part, because the lifespan of the log walls and wooden roofs is being considerably shortened by the high humidity required by the art objects. The Plan also identified the potential for increased public use, and indicated the current and future space requirements for the growing art collection and for the staff and operations.

**To address these issues the Plan proposed a four storey addition, which would provide a properly zoned and secure environment for the objects of art and the relocation of the collection's management and administration departments. The capital cost for this project was estimated in 1988 dollars to be at least \$54 million. The project schedule indicated completion over the next five years.**

The Board of Trustees approved the Plan in June 1988 and is proceeding with further studies to determine its feasibility. We were advised that the Plan had recently been submitted to the Ministry of Culture and Communications.

## The Ontario Educational Communications Authority

### RESPONSE

The Chairman of the Board of Trustees wrote to us on October 6, 1988, enclosing a copy of management's response to two of the matters raised in our audit report.

#### CARE AND CONTROL

##### ***Adherence to Procedures***

*"The control mechanisms as stated in the Collections Management Policy are goals which Management are trying to achieve; however, the 36% growth in collection, without commensurate growth in staff, has made the achievement of this objective somewhat difficult. Of the 3,800 works now in the collection, only about 150 are unphotographed. This small backlog will be completed within the 1988/89 fiscal year.*

*"While spot checks have been conducted each year with auditors, the McMichael acknowledges that a total inventory has not been conducted since 1983. The growth in the collections makes such a procedure impractical, if not impossible. McMichael will review its procedures and establish an acceptable mechanism for ensuring the immediate location of all items in the collection."*

#### OTHER MATTERS

##### ***Intended Use and Display History of Works of Art Not Identified***

*"As indicated elsewhere in the audit report, one of the criteria for accepting a work in the collection of McMichael is whether or not 'the object will be displayed or used'. In order for a work to be used it does not necessarily have to be displayed. Many works are too fragile for frequent showing; others are collected to demonstrate a particular period of an artist's career (even though the work may not be artistically significant in itself). Such works are often 'used' by curators and other researchers and all are available for viewing by the public upon request.*

*"The 'History of Display' computer records on the collection is a new initiative of the McMichael. Such records were not kept prior to 1987. With the help of interns, the Registrar has been researching old exhibition and loan files to develop an exhibition picture for each work in the collection to be included on the computer data base. Considering the fact that this is a recent initiative on the part of McMichael, it was inevitable that some of the computer records would be incomplete."*

### 4.4

#### **Non-Compliance with Purchasing and Project Evaluation Policies, The Ontario Educational Communications Authority (TVOntario)**

The Ontario Educational Communications Authority (Authority) operates under the Ontario Educational Communications Authority Act and federal licences. It produces and distributes learning resources to the people of Ontario, in English and in French, via its own television network and other related media.

## Comments on Crown Agency Audits

The Authority's total expenditures for the 1988 fiscal year were approximately \$59 million, of which \$44 million represented grants from the Province of Ontario.

### SUMMARY

#### SCOPE AND OBJECTIVES

In our audit of the Authority's English Programming Services, we assessed whether:

- . procedures were satisfactory for the approval and monitoring of costs incurred in the production of programs;
- . a competitive selection process was in place for the acquisition of services and materials related to the production of programs; and
- . satisfactory procedures were established to measure and report on the effectiveness of programs produced.

#### CONCLUSIONS AND FINDINGS

##### *APPROVAL AND MONITORING*

**Procedures over the approval and monitoring of costs incurred in the production of programs were satisfactory.**

##### *COMPETITIVE SELECTION PROCESS*

**Significant improvement was needed to ensure a competitive selection process was in place for the acquisition of services and materials related to the production of programs.**

- . Tendering procedures were frequently not followed;
- . Unusual circumstances were involved in the awarding of a \$340,000 contract.

##### *EVALUATIONS OF PROGRAMS PRODUCED*

**Good procedures had been developed to measure and report on the effectiveness of the Authority's programs in providing educational and learning opportunities. However, in many cases, procedures were not being followed.**

- . Six major projects, costing approximately \$4.4 million in total, did not have the required evaluations.

## The Ontario Educational Communications Authority

### COMMENTARY

#### Background

The Authority spent \$17 million in 1987 on English Programming. English programs for telecast are produced by the English Programming Services of the Authority.

The mission of English Programming Services is to provide educational and lifelong learning opportunities for Ontario residents through the creative delivery and utilization of effective television programs. English Programming Services addresses four markets: adult, children, part-time learning and youth. Total telecast hours for these markets during the 1987 fiscal year totalled over 5,000 hours.

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#### APPROVAL AND MONITORING

##### Satisfactory Procedures

Prior to the upcoming fiscal year, the Authority's Board of Directors allocates development and production funds for programs for each market group. Ideas for new programs and budgets of anticipated development and production costs require approval by both the Market Director and the Managing Director of English Programming Services.

Costs of production are monitored through monthly project reports. These reports compare the most recently approved budgeted project costs with the actual project costs for each month, as well as the accumulated year-to-date costs. Monthly reports are reviewed and approved by the Production Manager.

**Our testing of these procedures did not reveal any significant deficiencies over the approval and monitoring of program expenditures.**

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#### COMPETITIVE SELECTION PROCESS

##### Inadequate Tendering for Production Services and Materials

Tenders are required for all acquisitions over \$25,000. According to Authority policy, acquisition of goods and services in excess of \$2,000 requires at least three written quotations.

In the 1988 fiscal year, the Authority entered into six production contracts at a total cost of \$1.2 million. Our review of the six contracts, which were each greater than \$25,000, indicated the following:

- . **Four contracts totalling \$663,000 were awarded without tenders.**
- . **There were several unusual circumstances involved in the awarding of another contract.** In December 1987, management approved a project to be produced internally for approximately \$440,000. In January 1988, management decided to contract out the production of the project and invited tenders from three companies. During the first week of

## Comments on Crown Agency Audits

February 1988, bids of approximately \$332,000, \$333,000 and \$480,000 were received.

On February 12, 1988, a Programming official informed the Purchasing Office that he did not wish to accept any of the bids. **He stated that the one for approximately \$480,000 was too high and that he was not comfortable with the expertise of the other two companies.**

**Management permitted the company that had submitted the highest bid to submit a revised bid of approximately \$344,000 on February 12, 1988. Management accepted the revised bid.**

We noted that the President of the successful company was a former contract employee of the Authority between 1983 and 1986.

The Authority spent approximately \$2.3 million in the 1987 fiscal year on production-related expenditures. We reviewed 15 of these purchases, totalling approximately \$500,000. Seven were for amounts greater than \$25,000 and eight were between \$2,000 and \$25,000.

- **Four of the seven purchases in excess of \$25,000, totalling approximately \$300,000, were not tendered.**
- **Written quotations were not obtained for two purchases between \$2,000 and \$25,000.**

In addition, in two of the three purchases in excess of \$25,000 which had been tendered, **the Authority had invited several companies to tender rather than advertising the tender as being open to all interested, qualified suppliers.** Without the benefit of periodic advertised tenders, the Authority may not be aware of new, qualified suppliers and conversely, such companies may not be aware of the opportunities to demonstrate their capabilities to the Authority.

We recommended that for purchases over \$25,000, more open, competitive procedures be used and the circumstances for their use be included in the policy.

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### EVALUATIONS OF PROGRAMS PRODUCED

#### Non-Compliance with Major Projects Policy

The Authority has a Project Research Office comprised of six staff who are primarily responsible for evaluating programming projects.

Initial (or formative) evaluations are carried out at an early stage on new projects to provide guidance to production staff in modifying and improving the projects before final production decisions are made. Such evaluations include the testing of concepts, scripts and characters. Based on these evaluations, changes can range from minor editorial revisions to the outright cancellation of further program episodes.

## The Ontario Educational Communications Authority

Evaluations are also carried out on completed projects (summative evaluations) to determine their impact on the target audience and to verify that stated program objectives have been met. The main aspects examined are educational effectiveness, overall appeal and potential use in various circumstances.

According to Authority policy, each major programming project is to have an evaluation component. This policy requires that initial evaluations be done in all cases and that evaluations, in some form, be done on completed projects. A project is defined by the Authority to be "major" when its cost is \$500,000 or more.

For the 1985 to 1987 fiscal years the Authority produced and co-produced 178 projects at a cost of \$34.2 million. Eighteen of these projects, each costing over \$500,000, totalled \$19.5 million and were funded solely by the Authority. A summary of evaluation activities done for these major projects is as follows:

|  | No.              | \$ Millions        |
|--|------------------|--------------------|
| Both initial and post-completion           | 4                | 6.6                |
| Initial only                               | 8                | 8.5                |
| Post-completion only                       | 0                | 0                  |
| <b>Neither initial nor post-completion</b> | <b><u>6</u></b>  | <b><u>4.4</u></b>  |
| <b>Total</b>                               | <b><u>18</u></b> | <b><u>19.5</u></b> |

**As indicated by the summary, the Authority's evaluation policy for major projects had not been fully implemented for 14 projects costing \$12.9 million.**

### RESPONSE

The response from the Chairman and Chief Executive Officer of The Ontario Educational Communications Authority included the following comments.

#### GENERAL

*"Our intent is to place the Provincial Auditor's findings in an appropriate context. TVOntario is first and foremost a producer and broadcaster of educational television programs. Each year TVOntario produces over 600 hours of original programming in both the English and French languages, and broadcasts over 10,900 hours of educational television to 97% of Ontarians of whom 2.2 million are regular weekly viewers. The findings of the Audit report which relate to a relatively few isolated incidents should be considered in this context.*

*"TVOntario believes in its (external results), in particular its positive 'feedback' from viewers and members. Meanwhile, it has made substantial improvement in overall management control and accountability 'inside' over the recent past. Its achievements in this field have been acknowledged by the Provincial Auditor, and endorsed by TVOntario's Board of Directors at the 3 June 1988 Board meeting. TVOntario has always been a staunch supporter of the goals and procedures of the Provincial Auditor and welcomed that agency's decision to undertake operational audits. The audit of English Programming Services is the first audit*

## Comments on Crown Agency Audits

*of this kind at TVOntario. Operational audits, as distinct from Financial Audits, require extensive knowledge and understanding of the business to be useful and helpful."*

### COMPETITIVE SELECTION PROCESS

#### **General – TVOntario's Tendering Process**

*"... TVOntario believes that its practices follow bidding and selection procedures which are appropriate to the television industry. In 1987/88, TVOntario issued 18 tenders totalling \$2.5 million. Nevertheless we recognize that in one isolated case, TVOntario policy was not followed by a recently appointed manager. TVOntario moved immediately to rectify the situation on the basis of legal advice. Because of this single case, purchasing policies and procedures are once again being reviewed to ensure clarity and consistency with government guidelines."*

#### **Inadequate Tendering for Production Services and Materials**

*"With one exception which involved a violation of policy and which TVOntario has acknowledged as an error, TVOntario feels that its procedures have been, by and large, fair and competitive, given the nature of the television production industry and the requirement for specialized creative services."*

*"TVOntario acknowledges the need to revise its policies and accepts the principle of open tendering for standardized goods and services."*

*"... (Three of the four contracts totalling \$663,000) were awarded to a production company which had been selected previously through a tender process for its three-dimensional graphics animation technique ..."*

*"The concepts of 'follow-on assignments', and 'unique qualifications' are recognized in the Management Board Guidelines as reasons to waive a competitive process, and will be incorporated in the revisions to the tendering policy."*

*"The fourth contract ... was awarded to the production company which produced the previous series in order to maintain continuity of production style."*

*"TVOntario acknowledges that tendering policy was violated unknowingly by a recently appointed manager. The 'unusual circumstances' stemmed from attempts by TVOntario management to rectify the situation as much as possible without engendering legal action."*

*"The original error was made in implying to a production company that it would receive a production contract when no tendering process had been carried out. TVOntario attempted to get competitive bids notwithstanding the implied commitment. TVOntario did succeed in reducing the cost of the production by \$136,000 to a point where it was comparable to the other bids."*

## The Ontario Educational Communications Authority

*"TVOntario submits that this is one isolated incident that would not have occurred if TVOntario tendering policy had been followed.*

*"To help avoid such problems in the future, all new production employees will receive a digest of key policies in this area, as well as instructions to refer any questions to senior management. All managers are being reminded of the potential legal ramifications of verbal commitments without the appropriate tendering and contractual documentation having been prepared.*

*"(Regarding four of seven purchases in excess of \$25,000), two of the four purchases refer to the purchase of production studio services. TVOntario periodically surveys available production studio capacity in the Toronto area, and evaluates its suitability in the context of rates, volume discounts, time period availabilities and facilities offered. The particular studio selected enabled TVOntario to utilize its existing transportable studio equipment facility and enjoy favourable rates and availabilities.*

*"The other two purchases refer to film laboratory services. TVOntario has blanket orders with all major processing laboratories in Toronto. Orders for individual projects are placed on the basis of quality, delivery, service, and competitive price. In some cases, producers will have a preference for particular processes which are unique to that laboratory.*

*"TVOntario submits that these services are highly specialized, requiring extensive technical knowledge of the industry and of qualified suppliers, and as such, they are not appropriate for formal or open tendering, because of the administrative costs involved for all parties.*

*"(Two) purchases (between \$2,000 and \$25,000) refer to the construction of sets; one for 'Science Edition' at \$5,000, and one for 'Today's Special' at \$13,000. TVOntario employs a Manager of Set Design, who is a specialist in the design and construction of sets, and who has extensive knowledge about set suppliers in the Toronto area. In the case of 'Science Edition', the price was negotiated, but time did not permit obtaining written quotations (a condition which is recognized in Management Board Guidelines). In the case of 'Today's Special', the original set design was tendered. This contract was placed with the original supplier in order to maintain continuity of set design."*

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### EVALUATIONS OF PROGRAMS PRODUCED

#### **General – TVOntario's Evaluation Practices**

*"The issue of evaluation is . . . complex. TVOntario's educational 'Learning Systems' programs dominate the most competitive of international markets. In the past three years, TVOntario has won 49 awards, and has sold its programs in over 50 countries. It is not an accident that so small and financially strapped an institution can achieve such world acclaim. It is because our process of evaluation is perhaps the most intensive of any broadcaster in the world, and we are being evaluated by our customers and viewers every minute of every day.*

## Comments on Crown Agency Audits

*"If the Provincial Auditor is aware of another institution in the private or public sector that is more effective in this regard, we would appreciate having our attention directed to it.*

*"Specifically, TVOntario, consistent with its mandate, engages in three kinds of research, all of which have an impact on the effectiveness of programs. These include ongoing developmental research which looks to the future and provides information concerning long-term programming needs; project research which includes both formative and summative evaluations of current productions; and, market research which looks at the learning needs of our audience as well as the extent to which programs are used.*

*"In addition to this formal research TVOntario obtains feedback on program effectiveness through extensive consultations and workshops with classroom teachers, discussions with ministry officials and curriculum specialists, advice from advisory councils, participation in program competitions, and 'feedback' from purchasers around the world.*

*"Moreover, TVOntario, as a broadcaster, is very sensitive to public opinion, and dependent upon the continued goodwill and support of viewers."*

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### Non-Compliance with Major Projects Policy

*"There is a difference of opinion between TVOntario and the Provincial Auditor concerning the application of the Major Project Review policy, and Research and Evaluation policies. TVOntario acknowledges the need to further clarify these policies and is undertaking a review. Because of financial constraints, TVOntario must exercise judgement over which projects are evaluated. These decisions are taken jointly by Program Research and the Programming areas concerned.*

*"The projects for which neither formative nor summative evaluations were done were as follows:*

- 1. 'Paths of Development' was a co-production with ACCESS Alberta, who was the major producer and had the primary authority to undertake evaluative research.*
- 2. 'R2000' was an externally funded project developed with the support of the funders and made use of their extensive research. 'R2000' won the National Educational Film and Video award in California. 'R2000' had the greatest Canadian Marketing volume for a Part-Time Learning series. Summative research from similar telecourses was used during the development of the series.*
- 3. 'Speaking Out' is a successful ongoing series. The format has evolved over several years and enjoys considerable audience response. The average annual budget for 'Speaking Out' is \$262,000 for 29 shows. TVOntario does not consider 'Speaking Out' to be a major project in the context of the policy on Major Projects Review.*

## The Ontario Educational Communications Authority

4. *'People Patterns' has been a successful ongoing series. The format has evolved over several years, and enjoys considerable success with audiences in rural and remote areas of Ontario. The average annual budget for 'People Patterns' was \$306,100 for 14 shows. TVOntario does not consider 'People Patterns' to have been a major project in the context of the policy on Major Projects Review.*
5. *'Fish-On', while a major project, was a continuation of an already successful format. In its time, it was the second most successful Part-Time Learning series in terms of student registrations. It was also a very successful series in terms of Canadian sales. The total cost of 'Fish-On' was \$521,500 over 2 years.*
6. *'Energy- - Search for an Answer' was produced in 1982. To the best of our knowledge formative and summative evaluations were not undertaken because of short production time lines and limited evaluation resources. The series won several awards . . . New York International Film Festival - Bronze, Houston Film Festival - Gold, and the Birmingham International Film, and continues to sell well in the U.S.*

*"The projects for which formative but not summative evaluations were . . . undertaken are noted below. Formative research is considered to be more critical in terms of its potential effect on a particular series. In some cases, follow-on formative research is undertaken.*

1. *'Tales of the Blue Crystal'. Extensive formative research was undertaken on the pilot programs. The series was very well received in the schools.*
2. *'Aunt Agnes'. This series is considered to be very successful. Extensive formative research was done on the pilot in 1984. It is an ongoing series, produced over 4 years at an annual average cost of \$399,725. It was not considered to be a 'major project' in the context of the policy by TVOntario.*
3. *'Origins'. There were two formative evaluations after the first programs were produced. There was extensive testing of various aspects of the shows and various modifications were undertaken. The series was very well received in schools and with the general public.*
4. *'Not Another Science Show'. Produced as a continuing series because of its success with audiences. Two formative evaluations were undertaken. Summative evaluation was considered a low priority due to limited resources.*
5. *'Magic Shadows'. A long-running successful format employing serialized movies with Elwy Yost. It was not considered a priority for summative evaluation due to limited resources.*
6. *'Realities'. It was a successful long-running series. Several formative research studies were undertaken. Summative research was not considered to be a high priority due to limited resources.*
7. *'Money\$worth'. It was an ongoing successful series which attracted underwriting support. Several formative research studies were undertaken.*

## Comments on Crown Agency Audits

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8. *'Modern Middle East'. This was a major project with extensive formative research done by TVOntario. This series, on a very sensitive and difficult subject, generated favourable audience response.'*
- 

### 4.5

#### Potential for Cost Savings, Ontario Northland Transportation Commission

The Ontario Northland Transportation Commission provides a variety of transportation and communications services in Northern Ontario. The Commission's consolidated financial statements for the year ended December 31, 1987 are reproduced in Volume 2 of the 1987/88 Public Accounts.

The Rail Passenger operations of the Commission are fully subsidized by the Province of Ontario. In 1987, the Ministry of Northern Development and Mines provided subsidies to the Commission of \$24.8 million of which \$18.1 million related to Rail Passenger Services.

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#### SUMMARY

#### SCOPE AND OBJECTIVES

In conjunction with our 1987 audit of the Commission, we conducted a value for money review of its Rail Passenger operations. Our objective was to assess whether Rail Passenger Services were being provided in an economical manner.

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#### CONCLUSION AND FINDINGS

Rail Passenger Services could be provided more economically. On the main-line day train (the Northlander) opportunities existed for both raising additional revenues and decreasing operating costs. Required Government subsidies could be reduced by \$2 million annually through consideration of the following measures:

- . Increasing passenger fares commensurate with increases in operating expenditures.
- . Reduction in service in view of the available alternate modes of transportation.
- . Replacement of the full service dining car with a snack service.
- . A re-negotiation of trackage charges with the CN.

We also noted:

- . 16 of the 23 passenger cars being refurbished by the Commission at a cost of \$24 million may sit idle for as long as eight months of the year unless alternate uses are found for them.

## Ontario Northland Transportation Commission

### COMMENTARY

#### Overview

Under the authority of the Ontario Northland Transportation Commission Act, the Commission employs approximately 1,500 people to provide passenger and freight transportation services, local and long distance telephone services and tourist operations in Northeastern Ontario.

The Rail Passenger Services of the Commission include the main-line and the Moosonee branch-line service which combined, generated passenger revenues of \$5.1 million in 1987. The main-line Rail Passenger Service consists of the "Northland" and the "Northlander" trains which operate between Northeastern Ontario and Toronto. The Northland train is a joint venture with VIA Rail and operates nightly between Toronto and Kapuskasing; VIA operates the Northland from Toronto to North Bay and the Commission runs it from North Bay to Kapuskasing. The Northlander, a day train, operates six days per week between Toronto and Timmins with North Bay as its mid-point terminal.

The Moosonee branch-line service extends from Cochrane to Moosonee. This service includes the "Little Bear Express", a combined freight and passenger train which runs three times a week, and the "Polar Bear Express", a tourist excursion train operating six days per week for ten weeks during the summer.

#### Potential for Increase in Fares

During the 1987 fiscal year, the Northlander carried approximately 56,000 passengers. Operating revenues and expenditures during the 1987 fiscal year amounted to \$1.4 million, and \$6.5 million, respectively.

Fares for the Rail Passenger Services are established according to the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines. The existing Memorandum requires that fares charged for non-commercial services such as Rail Passenger Services, "shall be in accordance with industry standards". Furthermore, the Memorandum states that the Commission "shall ensure that adequate rate increases are proposed for non-commercial services such that revenues are increased at the same rate as any growth in operating expenditures".

Our review of passenger fares for the Northlander revealed that between 1980 and 1983, the rate in growth of fares exceeded the percentage growth in expenditures. However, between 1984 and 1987, the reverse occurred, resulting in Northlander fares falling below industry standards.

A comparison of fares charged by the Northlander with those charged by the bus and the nightly Northland along similar routes indicated that Northlander fares were the lowest. Furthermore, since 1978, this gap has continually widened. For example, the fares charged by the night train from Toronto to Kapuskasing, which in 1978 were significantly lower than those of the Northlander, are now between 5 and 33 per cent higher.

## Comments on Crown Agency Audits

According to our calculations, **approximately \$375,000 in additional revenues could have been realized over the past two years if passenger fares had been increased at the same rate as the increase in operating expenditures.**

At the conclusion of our audit, in February 1988, the Commission submitted a letter to the Ministry recommending fare increases for the Northlander over the next several years to bring the fare structure in line with the bus and the night train services. Effective March 21, 1988, the Ministry approved increases to the Northlander fares.

### Potential Savings from Reduction in Northlander Service

The Northlander began operating in 1977, seven days per week between Toronto and Timmins including a same-day return service between Toronto and North Bay. However, in 1979, service was reduced to six days per week, excluding Saturdays. Since then, the Northlander schedule has remained relatively unchanged although its annual ridership has risen from approximately 49,000 persons in 1980 to 56,000 persons in 1987.

Our review of the Northlander schedules and a comparison of other available modes of transportation indicated that there is considerable duplication of service along the Toronto/Timmins corridor. For instance:

- The VIA/Commission train (the Northland) operates nightly between Toronto and Kapuskasing with connecting bus service to Timmins.
- Gray Coach and the Commission jointly operate a daily bus service between Timmins and Toronto.
- VIA Rail operates a weekender service (Fri./Sat./Sun.) between Toronto and North Bay. Consequently, on Fridays, three trains depart from Toronto for North Bay, and on Sundays, three trains depart from North Bay for Toronto.
- Gray Coach operates four north and south bus runs each day between Toronto and North Bay.
- Commission buses run twice daily between North Bay and Timmins and once daily from North Bay via Cochrane to Hearst. These runs compete directly with the Northlander for ridership.

An analysis of the weekly Northlander ridership revealed that on Tuesdays and Wednesdays, the Northlander operated at less than half of its 114-passenger capacity 55 per cent of the time between Toronto and North Bay, and over 80 per cent of the time between North Bay and Timmins.

Given the low ridership on certain days of the week, we recommended that reducing Northlander service would not cause unnecessary hardship to the public and would also improve ridership on the Commission's bus service which

## Ontario Northland Transportation Commission

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currently breaks even. For example, **by cutting the Northlander service from six to five days per week, we estimated that operating costs, and therefore Government subsidies, could be reduced by approximately \$750,000 a year.**

We acknowledged that the decision regarding the level of service provided ultimately rests with the Minister of Northern Development and Mines. Therefore, we recommended that the Ministry review the scheduling of the Northlander, given that alternate modes of transportation would still be available.

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### Reassessment of Food Service on Northlander Warranted

The Northlander provides a dining car service offering full-course breakfast and dinner menus. The dining car is currently staffed by a crew of four persons comprising a chef, steward and two waitresses. During peak periods, an additional person is generally required.

Although ridership levels have remained relatively unchanged since 1983, losses from the dining car service have increased 30 per cent, from \$614,000 in 1983 to \$805,000 in 1987.

A study conducted by the Commission in February 1986, revealed that during 1985, an average of only 13 per cent of all Northlander passengers had purchased full-course, chef-prepared meals. Our analysis revealed that the situation in 1987 had remained relatively unchanged with the Government subsidizing approximately 80 per cent of the cost of chef-prepared meals.

A review of dining car facilities offered by other carriers, indicated that VIA Rail does not provide a full-course dining car service for all its routes. For example, on VIA's run from Montreal to Chicoutimi, a journey that takes 9.5 hours, only a snack car service is provided.

**If the full-course dining car service on the Northlander were replaced by a snack service, we calculated that the Commission could save approximately \$250,000 per annum in labour and food service costs.**

We felt that the practice of providing full-course dining car service was uneconomical and warranted reassessment.

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### High Trackage Charges Noted

The Canadian National Railways (CN) owns the railway tracks between Toronto and North Bay and charges trackage fees for use of its lines. VIA Rail pays the trackage fees for the Commission/VIA operation of the Northlander. The Commission pays the trackage charges for the operation of the Northlander along the same route. The trackage charge represents a charge-per-mile of track used and includes the costs of contracting CN train crews, ticketing and station services, maintenance of tracks and signals, and train dispatching.

## Comments on Crown Agency Audits

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In 1985, the Commission paid CN \$17.40 per mile, increasing the payment to \$18.80 per mile in 1987. Total trackage charges paid to CN for the year ending December 31, 1987, totalled \$2.6 million, although a portion of this was reimbursed by the National Transportation Agency of Canada.

In October 1986, a joint study on the Commission's operations revealed that while CN was charging VIA \$11 per mile, it was charging the Commission 66 per cent more or \$18.25 per mile, for the use of the same track between Toronto and North Bay. Moreover, the 80 per cent subsidy paid by the National Transportation Agency for trackage charges was calculated on the \$11 per mile paid by VIA and not on the actual amount of \$18.25 paid by the Commission.

According to our estimates, the 1986 trackage charges, and therefore the provincial subsidy, could be reduced by \$870,000 per annum if the Commission could negotiate the same trackage rates as paid by VIA.

We were informed that management was trying to negotiate lower trackage charges with CN.

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### Observations Noted - Passenger Car Conversion Project

In 1984, Management Board approved the Commission's proposal to purchase 20 used passenger cars from GO Transit at a cost of \$4 million. The submission to Management Board indicated that the 20 cars and 3 Commission-owned, auxiliary electrical power unit rail cars would need some additional work to make them suitable for inter-city travel. Aided by a consultant, the conversion and refurbishing of the cars was to be carried out by the Commission's employees at their own facilities in North Bay. **The cost of converting and refurbishing the passenger cars and the auxiliary units was estimated at \$24.4 million, with completion expected by the end of 1989.**

Our review of the Management Board submission and other documentation relating to the conversion project revealed the following:

- . There was no indication from a review of the Management Board submission that alternatives, such as leasing or purchase of new cars, were considered.
- . There was no evidence to suggest that the decision to convert and refurbish the passenger cars in-house rather than contracting the work to the private sector was, in fact, the most economical option.
- . A U.S. firm of consultants was selected to assist in the conversion of the cars at an estimated cost of \$1 million. As of November 1987, approximately \$1.9 million had been paid to this firm. We noted that the Commission in its selection of consultants did not go through a tendering process. We were informed by management that this firm was selected for its "expertise" as it was the only one in North America that had previously worked on a similar conversion project.

## Ontario Northland Transportation Commission

The Management Board submission also advised that the purchase of the 20 passenger cars was necessary to replace the Commission's "aging fleet" which was between 36 and 49 years old. The refurbished cars were to be used on the "Polar Bear Express" and the "Little Bear Express" trains which operate between Cochrane and Moosonee, and on the Northland train between Toronto and Kapuskasing.

In this regard, we also noted:

- The converted cars could not be used on the nightly Northland since they would not be compatible with the existing night train equipment of VIA Rail.
- Since the "Polar Bear Express" is only utilized for 10 weeks in the summer months, and as only seven cars are required for the "Little Bear Express", we estimated that potentially 16 of the 23 cars may stand idle for as long as eight months of the year.

We were informed by management that alternatives would be pursued to ensure that the passenger cars were fully utilized in the future.

### Adequate Staffing Levels

We reviewed the staffing levels for station and train crews which included ticket office personnel as well as engineers, brakemen and conductors who operate the trains. We concluded that the staffing levels compared favourably with those of other railway companies.

### RESPONSE

The following response was received from the Chairman of the Ontario Northland Transportation Commission on October 18, 1988.

#### **Potential for Increase in Fares**

*"Rail Passenger Tariffs are reviewed at least annually to determine the appropriateness of the rates being charged. These reviews take into account all aspects of rate making including cost escalation, the elasticity of demand, rates charged by other competitive modes (air, bus), (and) rates charged by non-competitive carriers (VIA)."*

*"The determination of costs is usually done after the fact and based on previous years' expenditures. Because of this, rates charged are often out of synchronization with costs by one year."*

*"Other factors affecting rate changes during the period were wage and price freezes during the early '80s when inflation was running in double digits."*

*"Taking the last ten years into consideration, the increases in both costs and revenues have been nearly equal."*

## Comments on Crown Agency Audits

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*"We agree if larger increases had been applied in 1986 and 1987, additional revenues would have been earned and that is why the larger increases for 1988 were recommended and adopted."*

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### Potential Savings from Reduction in Northlander Service

*"The service being provided is based on the level believed to be most appropriate in the circumstances and in accordance with the direction provided by the (Ministry of Northern Development and Mines). Reduction in service would obviously reduce costs and income to O.N.T.C."*

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### Reassessment of Food Service on Northlander Warranted

*"The policy of full dining car service has been in effect since this train service was inaugurated in 1977 and this policy has been confirmed each year by (the Ministry).*

*"In concert with the Ministry, a review of all service has been underway for some time."*

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### High Trackage Charges Noted

*"The amounts paid to C.N. for use of their trackage and some station facilities between North Bay and Toronto are negotiated periodically and are considered to be a fair rate for the facilities provided."*

*"The comparison with what VIA pays is not considered valid since the VIA rate is based on an artificial amount determined by historical values and averaged on cross-Canada expenditures."*

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### Observations Noted - Passenger Car Conversion Project

*"The final decision to proceed with this project was made after many man hours of research and examination of alternatives. In examining the background, one has to keep in mind that there were no private sector manufacturers of inter-city rail passenger cars in operation. There were some who stated that they would be willing to take on the task but they were expensive and did not have any expertise or experience."*

*"Our consultations with the American firm AMTRAK indicated that what they were doing in their shops with their employees was a feasible and practical way of reproducing 'like new' modern inter-city railway passenger cars."*

*"At the time when it was decided to proceed with this project, VIA Rail was also researching the possibility of acquiring new equipment at the time but for various reasons kept postponing their decisions. We did anticipate, however, that their decision would be to have equipment that would be compatible with what we are producing."*

## The Public Trustee of the Province of Ontario

*"Although VIA have still not finalized their equipment plans we still expect the equipment will be interchangeable.*

*"Regardless of VIA's decision, O.N.T.C. will utilize the equipment to its maximum.*

*"The selection of AMTRAK for consulting services was made on the basis that they were the only organization in North America which had proven, up-to-date technology on inter-city rail passenger equipment. The amounts paid to AMTRAK in total are near the original estimates, taking into account the inflation factor and the drop in the value of the Canadian dollar since the initial proposals were done."*

### 4.6

#### Administrative Improvements Required, The Public Trustee of the Province of Ontario

The Public Trustee performs duties under 29 separate Provincial statutes and is responsible primarily for administering the estates of mentally incompetent individuals.

In the 1988 fiscal year, the office earned a total revenue of \$14.4 million from interest earnings and administration fees. After expenses a net income of \$7.7 million was realized. The audited financial statements of the Public Trustee for the year ended March 31, 1988 are reproduced in Volume 2 of the Public Accounts.

### SUMMARY

#### OBSERVATIONS

During our current year's audit we noted that:

- heavy workloads of Trust Officers had resulted in administrative errors and poor servicing of clients' files;
- many estate files had not been discharged in an efficient and timely manner;
- the mandate of the Public Trustee for the supervision of charitable organizations was unclear; and
- there was a general lack of awareness that the Public Trustee supervises the operations of charitable organizations.

### COMMENTARY

#### ESTATES AND TRUSTS

##### Overview

Currently the office of the Public Trustee is responsible for administering approximately 23,000 estates and trusts having assets valued at \$360 million. Each year the office staff of 159 processes an estimated 750,000 financial transactions for these estates and trusts.

## Comments on Crown Agency Audits

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### Improved Administration Needed

Responsibility for the proper management of assets of each estate or trust is assigned to a Trust Officer. During our audit of a random selection of estate records, we noted the following examples of administrative weaknesses:

- A client's file indicated that the estate included a house with a value of \$300,000 at the time the Public Trustee assumed administrative responsibility. However, this asset was not recorded in the accounting records.
- Mutual funds, held by a brokerage house and valued at \$59,000, were not recorded in the client's estate records.
- In the case of five estate files in the process of being closed, the Public Trustee was unaware that the clients had died several years before. As a result, the office had to refund \$253,000 in overpaid Old Age Security and Canada Pension Plan benefits to the Federal Government.
- Cash of \$24,000, received by the Public Trustee in March 1985, remained in a non-interest bearing clearing account until May 1988. The money, along with accrued interest, has since been transferred to the client's estate.
- Monthly interest payments, totalling \$21,000 for some 29 months, were being held by a client's bank awaiting direction from the Public Trustee. It was only after our investigation that the Trust Officer took action to recover the money.

**The above examples tend to support the Public Trustee's statement, made in his Annual Report for the 1987 fiscal year, that "I do not feel that the office is providing an acceptable level of service at present".**

In the 1988 fiscal year, for example, 18 Trust Officers were responsible for managing over 15,000 estates. This means that during a normal work year, a Trust Officer could spend on average a maximum of two hours per file. However, many files require two to three weeks' work per year. Consequently, many files may not be examined and others may receive only a superficial review. This could lead to unintentional mismanagement of some estates.

**The complement of Trust Officers has remained relatively constant, while at the same time the volume and complexity of estates have continued to rise. This increased workload has prevented the Trust Officers from routinely reviewing the estates under their responsibility.**

We suggested an independent review of the office's current estate administration practices, in order to determine if further efficiencies could be effected in the various duties and routines followed by the Trust Officers.

## The Public Trustee of the Province of Ontario

### Backlogs in Discharging Estates

The Public Trustee ceases to manage a client's estate when the client dies or is deemed to have become mentally competent. The Public Trustee is required to provide an accounting of his management of the estate before the estate's assets are returned to the client, or to the executor or administrator of the client's will. In addition, before distributing the estate's assets and closing the file, the Public Trustee must locate the appropriate individuals and ensure they are legally entitled to receive the assets.

Estate files are discharged by a staff of 12 within the General Services Section. **As at March 31, 1988 approximately 1,800 estates were awaiting final distribution of assets. Over 525 estate files, or 30 per cent of the total, indicated that the Public Trustee's jurisdiction had terminated over a year ago.** An examination of 22 of the oldest estate files indicated that 17 files contained no recent correspondence or any information as to the current status of the estate.

We recommended that monitoring procedures be reviewed to ensure that files are discharged in a more efficient and timely manner.

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### CHARITIES

#### Mandate in Monitoring Charities Unclear

The Charities Accounting Act and the Charitable Gifts Act provide the Public Trustee with a general supervisory role over charitable corporations, associations, executors, administrators and trustees of charitable funds.

**However, the legislation governing the monitoring of charities is not straightforward and provides little specific direction on the duties of the Public Trustee, other than conferring the power to investigate a charity upon order of the court.**

Consequently, based on precedents set in common law and practice, the Public Trustee has assumed responsibility for "policing" the estimated 35,000 charities, the majority of which are church groups. For instance, over the years the Public Trustee has assumed a responsibility for ensuring that donations made by the public, including those made as bequests, are received and used by the organizations for charitable purposes. Currently, this responsibility is carried out in the Charities Section by a staff of seven, including two lawyers. The Section's legal and financial resources are inadequate to monitor the ongoing use of donations by charities. Rather, the majority of their resources are spent on pursuing charities alleged to have misused their donations.

**Our review of the Section's operations revealed limited monitoring of the receipt and use of donations by charitable organizations.** For example, we noted that:

- While charities must provide the Public Trustee with annual financial statements, the Section had files on only 5,000 of the estimated 35,000 charitable organizations in Ontario. Many of these files contained outdated financial or management information; and

## Comments on Crown Agency Audits

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- Many charitable organizations mentioned in wills were not notified of potential bequests. Of those that were notified the average delay was eight months.

The Public Trustee is currently attempting to obtain financial and management information from each charity operating in Ontario. However, given available staff, it is questionable whether much can be done with this information. For instance, to review and monitor the information submitted would require the Section to review 140 files per day besides the 2,500 wills it receives annually.

**The Public Trustee is well aware that the current resources assigned to the Charities Section are insufficient to fulfill the assumed mandate. As the number of files and charities increase, the backlog will worsen.** In response to these problems, the Public Trustee has attempted to obtain additional resources and to computerize some of the office's functions.

We felt that, before additional resources were assigned, a more specific direction outlining the degree of government involvement in the affairs of charitable and religious organizations would be necessary. Accordingly, we recommended that the Public Trustee, in conjunction with the Attorney General, clarify his legislative mandate by defining the extent to which charitable organizations should be monitored and by whom.

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### Lack of Awareness of Office's Supervisory Role

As previously indicated only seven full time employees are assigned to "police" the approximate 35,000 charitable organizations operating in Ontario. Consequently, the Public Trustee must rely, to a certain extent, on complaints from the general public in order to monitor charities.

**In discussing the use of public complaints, as a means of highlighting potential problem charities, we were informed that few complaints were received. In fact, the Public Trustee did not maintain any statistics on the number of calls or letters received.**

Using the general enquiry numbers in the Metropolitan Toronto Telephone Directory, we tried to determine how a member of the public could register a complaint regarding a charitable organization. We specifically contacted the Ministry of the Attorney General and the Ministry of Consumer and Commercial Relations. After being directed to various provincial offices, we were finally referred to the Better Business Bureau.

We were informed by the Better Business Bureau that it received approximately 7,000 charity related enquiries each year. However, the Bureau indicated that it had no authority to investigate any complaints, and could only advise the public of the number of enquiries received for a particular charity. Although the Public Trustee has legislative authority over charities, no referral to his office was ever made during our enquiries.

## The Royal Ontario Museum

**Improved awareness of the Public Trustee's role in the operation of charities could provide an added means of monitoring these operations.** The benefits would be twofold - the Public Trustee's office would become more aware of potential problem charities, and the charitable organizations would become more accountable in ensuring that their operations were properly conducted.

### RESPONSE

The Public Trustee responded to our comments and recommendations on October 13, 1988.

*"... I am aware of the issues identified and am dealing with the report as quickly as possible to ensure they are corrected by December, as far as existing, approved resources allow. I must point out that there are some workload issues identified in the report which quite simply require additional staffing to correct, such as backlog in Discharging Estates and improvements needed in Estates Administration.*

*"Over the last year, significant improvements have already been made to this operation through several major changes; re-organization of staff, careful assessment of the way in which we do business and an even more careful application of the limited funding available to us. So many of our achievements to date have been made possible through the dedication of my staff to the operation and the clients we serve.*

*"In order to carry out further crucial improvements, which include the problems in this report, I will be requesting additional staff in the near future."*

### 4.7

#### **Improved Controls and Data Security Recommended, The Royal Ontario Museum**

The objectives of the Museum are to collect and exhibit objects and documents to illustrate natural history and the history of man, to operate a planetarium and to promote education, teaching, research and publication in these fields.

With total assets of \$20.7 million on June 30, 1987, the Museum had operating revenues and expenditures for the year totalling \$21.3 million and \$21 million, respectively. The annual audit of this Crown-controlled corporation is performed by a public accounting firm.

### SUMMARY

#### OBSERVATIONS

In their management letter to the Museum for the fiscal year ending June 30, 1987, the auditors referred to the following matters, some of which were being repeated for the second consecutive year:

- . Inadequate invoicing procedures could result in errors or misappropriation of funds.
- . Accounting procedures would fail to detect missing cash reports and receipts.

## Comments on Crown Agency Audits

- . Internal controls over donations were weak.
- . The lack of off-premises storage for back-up computer files leaves the Museum vulnerable to the total loss of accounting information.

### COMMENTARY

#### *WEAK CONTROLS OVER INVOICING AND CASH RECEIVED*

Certain departments issue invoices for goods or services provided to outsiders. Payments made were being directed to the servicing department rather than to Accounting. This poor segregation of duties within departments was compounded by the fact that Accounting was not following up on the serial continuity of invoices issued by the various departments. This situation could result in accounting errors or the misappropriation of funds.

The auditors recommended that all departments use the newly-available invoices which indicate that payments are to be made directly to Accounting. The old invoices should be destroyed and a procedures manual written for use by all departments to ensure consistent preparation of invoices. In particular, all used and void invoices should be sent to Accounting. To follow-up on the serial continuity of all invoices, Accounting should utilize the available control log.

#### *INADEQUATE MONITORING OF CASH REPORTS*

The Museum generated approximately \$2 million in income from its admissions, gift shops, Members' Lounge, and other areas. A pre-numbered cash report of each day's total sales is submitted by every department to Accounting, together with the receipts for deposit.

**Accounting had no procedures for following up on missing cash reports. Therefore, missing cash reports and receipts could have gone undetected.**

The auditors recommended that Accounting better control the issuance of sequential, pre-numbered cash reports. Also, Accounting should regularly follow-up to ensure departmental staff use the reports in numerical order and forward all used and void cash reports.

#### *WEAK INTERNAL CONTROL OVER DONATIONS*

**During the 1986/87 fiscal year, the ROM Galleries Campaign received \$2.8 million in bequests and donations. At the time of the audit, one individual was responsible for receiving and depositing all donations, as well as preparing and mailing the tax receipts to donors. This individual also had custody of the supply of unused tax receipts.**

Stricter control should be maintained by Accounting over unused tax receipts, particularly if ROM management continue to delegate responsibility for both the donation and receipt control functions to one individual. Also, Accounting should be responsible for the mailing of all tax receipts.

## Newly Established, Terminated and Inactive Crown Agencies

### INADEQUATE COMPUTER FILE SECURITY

There was no off-site storage of back-up accounting computer files. Destruction of these files by fire or other disaster could have resulted in the complete loss of accounting information.

It was therefore recommended that an off-site storage facility be utilized for back-up computer files.

### RESPONSE

Museum management responded that all of the recommendations would be implemented.

### 4.8 Newly Established, Terminated and Inactive Crown Agencies

#### NEWLY ESTABLISHED AGENCIES

Two agencies of the Crown were established during the 1988 fiscal year.

##### *Office of the Information and Privacy Commissioner*

The Office of the Information and Privacy Commissioner was created by the passage of the Freedom of Information and Protection of Privacy Act, 1987, which came into force on January 1, 1988. The Information and Privacy Commissioner exercises the powers and performs the duties prescribed by the Act.

##### *Potato Financial Protection Board*

This Board was established effective September 10, 1987 by a regulation made under the Farm Products Payments Act. The Board was constituted to administer the Fund for Producers of Potatoes, a fund to protect the producers of processing potatoes from losses caused by the bankruptcies of processing companies.

Initial audits of these agencies have been completed for their respective periods of operation to March 31, 1988.

#### TERMINATED AGENCY

##### *Residential Tenancy Commission*

Under the authority of the Residential Rent Regulation Act, 1986, the Commission was essentially terminated as of December 15, 1986, except for the purposes of processing any rent review applications received prior to January 1, 1987.

## Comments on Crown Agency Audits

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### *INACTIVE AGENCIES*

As at March 31, 1988 there were seven inactive Crown agencies.

#### *Agencies of the Crown*

The John Graves Simcoe Memorial Foundation

North Pickering Development Corporation

Ontario Deposit Insurance Corporation

Ontario Land Corporation

Ontario Pavilion Expo '86

#### *Crown Controlled Corporations*

The Ontario Transportation Development Corporation

Ontario Van Pool Organization Limited

## CHAPTER 5

### PUBLIC ACCOUNTS OF THE PROVINCE

#### 5.1

#### Preparation of the Public Accounts

In accordance with the Ministry of Treasury and Economics Act the Public Accounts are prepared under the direction of the Treasurer, and are to be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

The audit of the Public Accounts consists of an examination of the financial statements of the Province on which the Provincial Auditor expresses an opinion, together with a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- (a) in which the Province has an investment, or
- (b) which have borrowed from the Province, or
- (c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of the expenditure for each ministry, such as salaries and wages, employee benefits, travelling expenses and other payments. This expenditure is shown under two main categories, Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any relevant comments would be included in this Chapter of our Annual Report.

#### 5.2

#### Financial Statements of the Province

The audited financial statements of the Province for the year ended March 31, 1988 are reproduced in the Province's Financial Report and in the Public Accounts, Volume 1. The financial statements and notes disclose in summary form the financial activities of the Province for the fiscal year, and report on the significant aspects of financial position at the close of the fiscal year.

An integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on pages 1-2 and 1-3 of Volume 1 of the 1987-88 Public Accounts. Such a Summary is included in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by the private sector and those followed by the Province of Ontario.

As covered in the Summary of Significant Accounting Policies in the Public Accounts, Ontario's financial statements are prepared using the cash basis of accounting. In the case of cash outflows, this basis is modified to allow for an

## Public Accounts of the Province

additional 30 days to pay for obligations incurred during the fiscal year just ended.

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and no less informative, and is appropriate to the needs of the two primary user groups - legislators and the general public.

This Office agrees with that position.

### 5.3

#### Provincial Auditor's Opinion

Under the Audit Act the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts, and whether these policies have been applied on a basis consistent with the preceding year.

The Provincial Auditor's opinion is reproduced as follows:


I have examined the statement of financial position of the Province of Ontario as at March 31, 1988 and the statements of consolidated revenue fund transactions, revenue, expenditure, other transactions and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1988 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph are intended to convey that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than \$70 million.

In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly. A more complete explanation of the Provincial Auditor's opinion will be included in this report.

Toronto, Ontario.  
July 20, 1988.

  
D.F. Archer, F.C.A.,  
Provincial Auditor.

## Provincial Auditor's Opinion Explained

### 5.4

#### Provincial Auditor's Opinion Explained

##### General

The Provincial Auditor's Opinion essentially takes the form prescribed by the accounting profession in Canada. A disadvantage of a standard wording is that the opinion may become a symbol in itself and the specific messages that the auditor wishes to convey may not be clearly understood.

The recent report of the "Commission to Study the Public's Expectations of Audits" (MacDonald Commission) prepared for the Canadian Institute of Chartered Accountants identified an "expectation gap" between what an auditor does and what the reader expects the auditor to do. The Commission recommended that the auditor's communication be expanded to more fully explain the nature and extent of the auditor's work, and the degree of assurance it provides. The purpose of this section is to explain, by going through the report phrase by phrase, the message we are trying to convey.

The opinion essentially consists of two paragraphs. The first paragraph indicates the nature of the work performed. The second paragraph expresses the opinion based on this work.

##### Our Examination

*I have examined the statement of financial position of the Province of Ontario as at March 31, 1988 and the statements of consolidated revenue fund transactions, revenue, expenditure, other transactions and debt transactions for the year then ended. . .*

The financial statements of the Province are prepared by the Office of the Treasury under the direction of the Treasurer of Ontario. The purpose of our examination is to provide an objective look at the information presented in the financial statements and provide an opinion thereon.

Although not specifically mentioned as being covered by our examination, the Summary of Significant Accounting Policies and the Notes to the Financial Statements are an integral part of the financial statements and are subject to audit.

*. . . My examination was made in accordance with generally accepted auditing standards . . .*

In conducting the audit certain standards are met. These "generally accepted auditing standards" are those set out by the Canadian Institute of Chartered Accountants. These standards relate to the quality and nature of work to be performed.

In summary, they require:

- . adequate technical training and proficiency in auditing;

## Public Accounts of the Province

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- . due care and an objective state of mind;
- . adequate planning and proper execution;
- . proper supervision of assistants;
- . study and evaluation of internal controls on which the auditor intends to rely;
- . obtaining sufficient appropriate audit evidence; and
- . the issuance of a report.

*... and accordingly included such tests and other procedures as I considered necessary in the circumstances ...*

Many procedures are performed on a test basis. To examine all or most transactions would be both impractical and uneconomical. The auditor's professional judgement dictates both the choice from available procedures and the extent to which they are applied.

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### Results of Our Examination

*... In my opinion ...*

The Provincial Auditor's comments on the financial statements are prefaced with the words "In my opinion". This term is intended to convey that my examination was carried out to provide a high degree of assurance, not absolute or complete assurance.

Absolute assurance is not possible due to factors such as the following:

- . Much of the evidence available to auditors is persuasive rather than conclusive in nature. For example, although internal financial controls under examination may appear strong, there is no guarantee that such controls will not be breached from time to time.
- . Testing is used as a means of obtaining audit assurance, as opposed to a 100 per cent examination of all transactions and balances.

Instead the auditor decides, based on his professional judgement, the highest degree of assurance that can be obtained at a reasonable cost. In the case of the audit of the Public Accounts, this level of assurance was determined to be 99 per cent. In other words, we are 99 per cent confident that the statements do not contain a material error.

*... these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1988 and the results of its operations and changes in its financial position for the year then ended.*

## Provincial Auditor's Opinion Explained

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The key words in this sentence are "present fairly" and "in accordance with".

The term "present fairly" has no intrinsic meaning. It has meaning only in relation to a measure or standard. The standard in this case is the basis of accounting followed by the Province and set out in the Summary of Significant Accounting Policies. When viewed in relation to that standard, we are saying that the financial statements "present fairly".

By using the words "present fairly", we are not stating that the financial statements are totally accurate, correct, or true. What we are stating is that the statements do not contain errors in aggregate that would affect the substance of the information reported.

For the audit of the Province's financial statements this year, \$70 million was considered to be of a size to affect the substance of the information reported. This is based on our professional judgement and the guidelines outlined in professional literature. It should be noted that \$70 million represents approximately one-fifth of 1 per cent of total expenditures for the current year.

In assessing whether the financial statements "present fairly", we consider whether the accounting policies have been followed and whether the underlying accounting records are reliable and the financial information is properly communicated in the financial statements. In this regard, tests and procedures are designed including:

- examination of a sample of transactions to see how effectively the accounting systems prevent and detect errors;
- confirmation of certain balances and transactions to ensure that they are properly recorded;
- review of the estimates and approximations used in the financial statements to ensure they are reasonable; and
- final review of the financial information presented for overall reasonableness.

In most cases these tests are performed to identify errors significantly less than those that would affect the substance of the information reported.

We also consider whether the accounting policies of the Province are appropriate and consistent with those followed in the previous year. Comment in this regard is only made in the event of an inappropriate policy or inconsistent practice.

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### Discussion with Legislative Committee

The preceding explanation was reviewed by the Standing Committee on Public Accounts in May 1988. Discussion focused on the limitations inherent in the Auditor's Opinion. The Committee was satisfied with the levels of assurance and materiality determined by the Auditor.

## Public Accounts of the Province

### 5.5

#### Payments out of the Consolidated Revenue Fund

Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. The nature of Management Board Orders is more fully explained in Section 5.7.

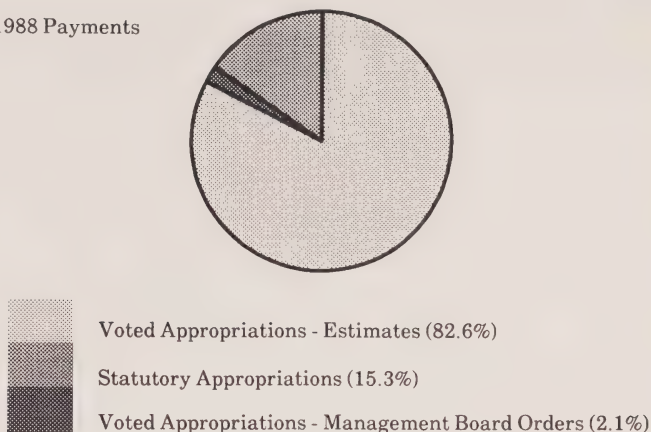
A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in Section 5.8.

A comparative summary of payments out of the Consolidated Revenue Fund is as follows:

|                                       | 1988<br>(\$ millions) | 1987<br>(\$ millions) |
|---------------------------------------|-----------------------|-----------------------|
| <b>Voted Appropriations</b>           |                       |                       |
| Estimates                             |                       |                       |
| Expenditure                           | 29,835                | 27,228                |
| Other - Loans, Advances, etc.         | <u>94</u>             | <u>44</u>             |
|                                       | <u>29,929*</u>        | <u>27,272*</u>        |
| <b>Management Board Orders</b>        |                       |                       |
| Expenditure                           | 767                   | 895                   |
| Other - Loans, Advances, etc.         | <u>1</u>              | <u>-</u>              |
|                                       | <u>768</u>            | <u>895</u>            |
| <b>Total Voted Appropriations</b>     | <u>30,697</u>         | <u>28,167</u>         |
| <b>Statutory Appropriations</b>       |                       |                       |
| Expenditure                           | 4,339                 | 4,054                 |
| Other - Loans, Advances, etc.         | <u>1,188</u>          | <u>699</u>            |
| <b>Total Statutory Appropriations</b> | <u>5,527</u>          | <u>4,753</u>          |
| <b>Total Payments</b>                 | <u>36,224</u>         | <u>32,920</u>         |

## Voted Appropriations

1988 Payments



(\*) As explained in section 6.8 there were four special warrants issued in the 1988 fiscal year amounting to \$9,950,162,000. There were two issued in 1987 totalling \$6,215,554,800. Normally all payments made under the authority of special warrants would be classified separately in the foregoing statement; however, due to the circumstances surrounding these special warrants and to maintain comparability of the Voted Appropriations between fiscal years, payments authorized by the special warrants have been included in payments from Voted Appropriations.

### 5.6

#### Voted Appropriations - Comparison of Authorized and Actual Payments

This comparison for the fiscal year ended March 31, 1988 is as follows:

|                         | Authorized<br>(\$ millions) | Actual<br>(\$ million) | Actual<br>Under (over)<br>Authorized<br>(\$ millions) |
|-------------------------|-----------------------------|------------------------|---|
| Voted Appropriations*   |                             |                        |   |
| Estimates               | 30,578                      | 29,929                 | 649   |
| Management Board Orders | <u>802</u>                  | <u>768</u>             | <u>34</u>   |
|                         | <u>31,380</u>               | <u>30,697</u>          | <u>683</u>  |

\* See asterisk in section 5.5.

As has been the case for the last several years, the total actual payments of \$30,697 million slightly exceeded the amount of \$30,578 million authorized in the Supply Act. Ministries anticipating overexpenditure situations in their programs obtained authorization for the additional spending through Management Board Orders. As a result, expenditures were \$683 million less than the total authorized.

## Public Accounts of the Province

### Overexpenditure of Certain Appropriations

Overexpenditures occur when actual payments exceed the total appropriations authorized by the Supply Act (the original Estimates and the Supplementary Estimates) and by Management Board of Cabinet (Management Board Orders). If, during the fiscal year, a ministry requires an increase in funding beyond the original Estimates amount, it obtains interim approval from Management Board of Cabinet in the form of an Expenditure Increase. However, failure to formalize the authority for the increased spending before the fiscal year-end, by means of a Supplementary Estimate or a Management Board Order, results in an overspending of the authorized appropriations.

For the 1988 fiscal year, three ministries expended funds in excess of their total authorized spending limits (the appropriations). The circumstances involved in the overexpenditures, which totalled \$1,864,546, were different in each ministry and are as follows.

- The Ministry of Transportation expended \$1,723,784 more than the appropriation for the Maintenance Activity (Vote 3604, Item 4) of the Provincial Highways Program. Management Board had allowed the Ministry an Expenditure Increase of \$1,725,000 in June 1987. However, the authority to spend the additional funds was not formalized as the \$1,725,000 was not included in the December 1987 Supplementary Estimates.

The Ministry incorrectly assumed that Constraints on expenditures, imposed by Management Board at approximately the same time as the Supplementary Estimates were being requested, would have offset the increase in total approved spending authorized by the Supplementary Estimates. Consequently, during the preparation of the Public Accounts in the spring of 1988 an overexpenditure of \$1,723,784 was discovered in Vote 3604, Item 4. However, it was then too late for the Ministry to obtain legal authority for the additional spending by means of a Management Board Order.

- The Public Accounts indicate that the Ministry of Culture and Communications has expended \$108,895 in excess of its authorized appropriation for the Community Facilities Activity (Vote 606-1) of the Capital Support and Regional Services Program. However, the apparent overexpenditure did not result from a lack of expenditure control. It occurred because an error was made in the process of apportioning the relevant appropriations of the former Ministry of Citizenship and Culture to two new ministries, the Ministry of Culture and Communications and the Ministry of Citizenship.

When the new ministries were established by Orders-in-Council in October 1987, the ministries and the government's central agencies agreed that expenditures would be controlled as if the former ministry had continued to exist for the balance of the 1988 fiscal year. However, subsequent to the year-end it was decided that, for purposes of presentation in the Public

## Management Board Orders

Accounts, the former ministry's Community Facilities Activity estimated expenditure of \$33,942,900 would be apportioned as follows:

- \$23,507,900 to Culture and Communications (actual expenditure of \$23,616,795)
- \$10,435,000 to Citizenship (actual expenditure of \$9,797,516)

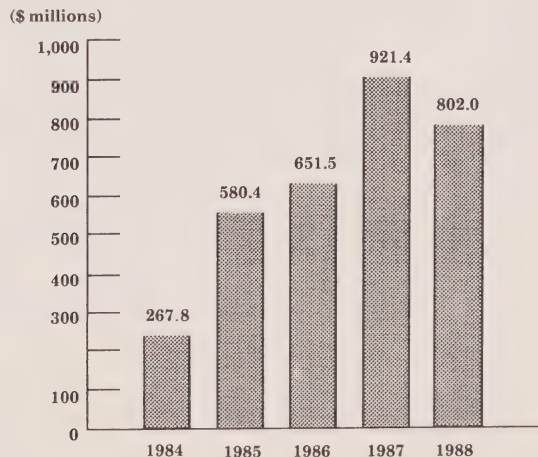
The combined actual expenditure of \$33,414,311 did not exceed the \$33,942,900 authorized expenditure. The apparent overexpenditure in Culture and Communications resulted from the over-allocation of authorized estimated expenditures to Citizenship, an error that was discovered too late in the preparation of the Public Accounts to have a correction made.

- The Office of the Chief Election Officer expended \$31,867 more than its appropriation (Vote 501). However, the Office had properly followed the procedures for obtaining Supplementary Estimates, and had received appropriate authorization to spend an additional \$36,800. The overexpenditure has, in effect, resulted from the inadvertent exclusion of the \$36,800 from the expenditure estimates approved under the Supply Act. The error occurred during the process of coordinating and consolidating Estimates and Supplementary Estimates for presentation to the Legislature.

### 5.7 Management Board Orders

Section 5 of the Management Board of Cabinet Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:



## Public Accounts of the Province

By way of additional information, the Management Board Orders for the 1988 fiscal year are summarized by month of issue as follows :

| Month of Issue                | Number    | Authorized<br>\$   | %            |
|-------------------------------|-----------|--------------------|--------------|
| July 1987 to<br>February 1988 | 26        | 108,110,600        | 13.5         |
| March 1988                    | 46        | 456,508,200        | 56.9         |
| April 1988                    | <u>14</u> | <u>237,371,200</u> | <u>29.6</u>  |
|                               | <u>86</u> | <u>801,990,000</u> | <u>100.0</u> |

A listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, together with explanatory information.

### 5.8

#### Special Warrants

Normally, motions of interim supply adopted by the Legislature authorize payments from appropriations prior to the passage of the Supply Act. However, when the Legislature is not in session, section 4 of the Management Board of Cabinet Act provides for the issue of a special warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

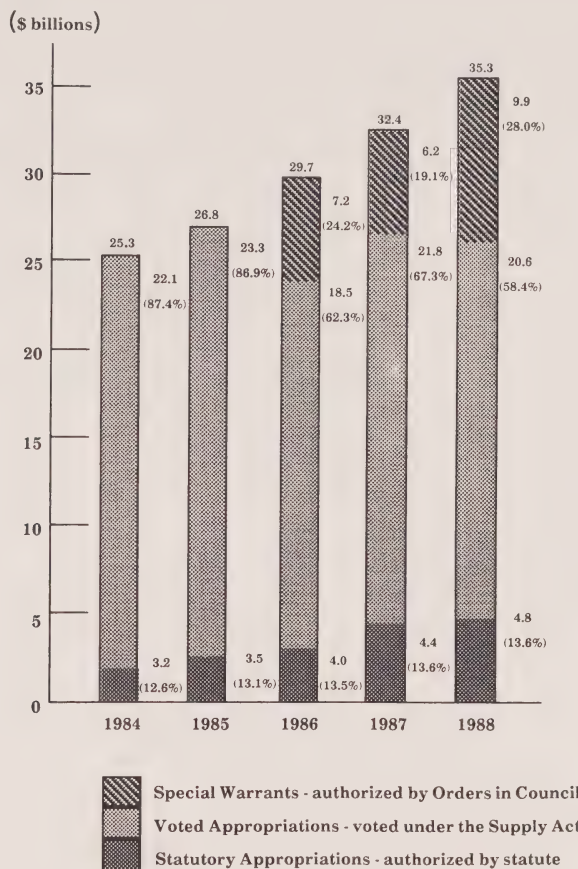
Four Special Warrants were issued during the year ended March 31, 1988. The Special Warrants were approved by Orders in Council, dated March 26, 1987 and October 30, 1987 for \$7,280,124,000 and \$2,670,038,000, respectively. Payments for both the general and necessary expenditures of the government, and for the general and necessary expenditures of the Offices of the Chief Election Officer, Ombudsman and Provincial Auditor, were authorized by these Special Warrants.

The amounts of the Special Warrants were based on the anticipated cash requirements, on the premise that expenditure would continue up to the authorized limit, and then under the authority of motions of interim supply.

The Supply Act, 1988 covering the year ended March 31, 1988 received Royal Assent on June 1, 1988. The total approved by the Act excluded the amount authorized by the four Special Warrants.

## Special Warrants

The following chart is a five year summary of approved expenditures:



The chart indicates that, for the last three fiscal years, Special Warrants have formed a substantial portion of the approved expenditures. Such expenditures were approved, not by the Legislative Assembly as it was not in session, but by the Lieutenant Governor on the recommendation of the Government.

In accordance with a Standing Order of the Legislative Assembly, summaries of Special Warrants have been tabled on the first sitting days following the issue of the Warrants.

## Public Accounts of the Province

### 5.9

#### Write-Off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

A total of \$53.9 million was written off in the 1988 fiscal year (1987 \$71.7 million). The two major write-offs for 1988 related to the following:

- A \$23.1 million write-off by the Ministry of Industry, Trade and Technology related to uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful.
- A \$14.8 million write-off by the Ministry of Revenue relating to unpaid taxes and GAINS overpayments. The major write-offs were as follows:

|                      | (\$ millions) |
|----------------------|---------------|
| Corporations Tax Act | 6.7           |
| Retail Sales Tax Act | 6.5           |

Other write-offs of uncollectible debts included the following:

Uncollectible accounts totalling \$3.7 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. Virtually all of these write-offs involve accounts at least four years old.

The Ministry of Financial Institutions wrote off \$3.0 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off relates to claims/judgements on which no payment has been received for five years, bankruptcy, death or where the debtor has not been located.

A \$3 million write-off by the Ministry of the Environment related to environmental clean-up costs which were incurred to remove hazardous material. Efforts to collect from the company involved were unsuccessful as the company had no assets to settle the claim.

The Ministry of Community and Social Services wrote off \$2.0 million with respect to overpayments under the Family Benefits Act. The major portion of this write-off relates to individuals whose whereabouts were unknown, or who were unable to repay.

The Ministry of Agriculture and Food wrote off \$1.9 million in defaulted guaranteed bank loans under the Ontario Farm Adjustment Assistance Program. This represents the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

## Transfers Authorized by Board of Internal Economy

### 5.10

#### Transfers Authorized by Board of Internal Economy

Section 88 of the Legislative Assembly Act reads:

"The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same Vote and the Provincial Auditor shall make special mention in his report of any transfer under this section."

In respect of the 1987-88 expenditure estimates, the following transfers totalling \$1,321,466 were made within Vote 201:

|       |           |  |             |
|-------|-----------|--|-------------|
| From: | Item 2    | Office of the Clerk  | \$1,321,466 |
| To:   | Item 4    | Members' Indemnities   | 109,110     |
|       | Item 12   | Commission on Election Finances  | 807,028     |
|       | Statutory | Contribution to Legislative Assembly Retirement Allowances Account, the Legislative Assembly Retirement Allowances Act | 405,328     |

**Public Accounts of the Province**

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## CHAPTER 6

### OFFICE OF THE PROVINCIAL AUDITOR

#### 6.1

#### Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is appointed an officer of the Legislative Assembly, and therefore is not an employee of the Government. The appointment is made by the Lieutenant Governor in Council on the address of the Assembly after consultation with the chairman of the Standing Committee on Public Accounts. The Auditor may be removed for cause at any time by the Lieutenant Governor in Council on the address of the Legislative Assembly.

Administratively, the Office of the Provincial Auditor is distinctly separate from any government ministry or Crown agency, and its employees are not members of the public service. The Office's resource requirements are subject to approval by the Board of Internal Economy, an all-party legislative committee independent of the government's administrative process.

The Audit Act requires the Provincial Auditor to present the Office's annual expenditure estimates to the Board for review and approval. The chairman and vice-chairman of the Standing Committee on Public Accounts may attend the review of the estimates.

In accordance with section 28 of the Audit Act, the accounts related to the Office's expenditure for the year ended March 31, 1988 were audited by a firm of chartered accountants. The audited statement of expenditure, together with the report have been submitted to the Board of Internal Economy and tabled in the Assembly. They are reproduced in section 6.10.

#### 6.2

#### Office Goals

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist deputy ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits, and by presenting an Annual Report to the Legislature and individual reports to the respective deputy ministers/agency heads.

## Office of the Provincial Auditor

### 6.3

#### Audit Responsibilities

The audit universe in government is comprised of the following areas:

- the audits of ministries, including transfer payment recipients;
- agencies of the Crown and Crown controlled corporations; and,
- the Province's financial statements.

The participants in the audit process may involve internal auditors, public accounting firms and the Provincial Auditor.

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#### Internal Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their responsibilities include the auditing of both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability considerations.

In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry and agency internal audit branches.

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#### Public Accounting Firms

Public accounting firms are involved in the audits of some agencies of the Crown and all Crown controlled corporations.

A listing of the seven agencies of the Crown audited by public accounting firms for the year ended March 31, 1988 is included as part (ii) of Exhibit 3. The 34 Crown controlled corporations audited by public accounting firms for the year ended March 31, 1988 are listed in Exhibit 4.

#### *Agencies of the Crown*

Section 9(2) of the Audit Act stipulates that public accounting firms auditing agencies of the Crown must perform the audit under the direction of, and report to, the Provincial Auditor.

#### *Crown Controlled Corporations*

Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor together with a copy of their findings and recommendations to management (management letter). Currently, our Office reviews the auditors' working papers and other documents on a cyclical basis of at least once in a four year period and, where necessary, requests explanations and information concerning the nature and extent of the audit work carried out and the results obtained.

## Audit Activities

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Reviews conducted during the 12 months ended September 30, 1988 are identified in Exhibit 4.

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### The Provincial Auditor

#### *Primary Audit Responsibilities*

The primary audit responsibilities of the Provincial Auditor involve conducting value for money, attest and compliance audits at ministries and agencies of the Crown.

#### *ACCOUNTS OF THE PROVINCE*

In conformity with section 9(1) of the Audit Act, all ministries are subject to legislative audit. In addition to the annual attest audit work in ministries required to enable the Provincial Auditor to express an opinion on the Province's financial statements, audits which are primarily of a value for money nature are also undertaken in ministries. A listing of the ministry audits covered by this Report appears in Exhibit 2.

#### *ACCOUNTS OF AGENCIES OF THE CROWN*

Section 9(2) of the Audit Act states that where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Provincial Auditor is to perform the audit. For the year ended March 31, 1988, the Provincial Auditor had direct audit responsibility for 64 agencies of the Crown. These agencies are listed in part (i) of Exhibit 3.

#### *Additional Audit Responsibilities*

Under section 16 of the Act, the Provincial Auditor is required to examine any matter respecting the Public Accounts if directed by the Standing Committee on Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

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## 6.4 Audit Activities

### Types of Audits

Audits undertaken by this Office are of three types - value for money, attest and compliance. All such audits are performed in accordance with generally accepted auditing standards, including those established for value for money auditing. These three categories were fully described in section 7.4 of our 1987 Report. A condensed description of each of these categories follows:

## Office of the Provincial Auditor

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### *Value for Money*

Value for money audits, covering various government and Crown agency programs and activities, are designed to assess components of the management function related to economy, efficiency and procedures to measure effectiveness.

In conducting these audits, detailed background information concerning the operations of the program or activity being audited is gathered from various internal and external sources. Suitable criteria are then developed and discussed with management. Criteria may be defined as reasonable and attainable standards of performance and control against which the adequacy of the management function can be assessed. The audit process concludes with objectively obtaining and evaluating evidence to ascertain the degree of correspondence between the matters subject to audit and the criteria.

In conducting value for money audits, it is not part of the Office's mandate to actually evaluate the effectiveness of programs, or to develop standards to measure efficiency of program delivery. These are ministry/agency management functions. Our responsibility lies in assessing the extent to which these functions have been carried out by management.

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### *Attest*

The Office conducts attest (financial) audits on the annual financial statements of the Province and numerous Crown agencies. They are primarily designed to attest to (express a professional opinion on) a set of financial statements. This attestation (or opinion) relates to whether the operations and financial position of an entity have been fairly presented in compliance with the entity's stated accounting policies, and whether such policies are consistent with those used in the previous year.

Internal controls represent methods and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. To rely on internal controls, the auditor must carry out tests to be satisfied that the controls are operating effectively and that the entity's laid down procedures are being complied with.

In addition, the auditor must obtain other evidence and conduct further testing aimed at providing evidence as to the validity of the transactions recorded in, and balances produced by, the accounting system.

As part of our ministry audit activities, or on a government-wide basis, the Office also periodically conducts financially oriented audits directed at assessing the adequacy and proper functioning of specific internal controls.

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### *Compliance*

Compliance audit work is generally carried out in conjunction with our value for money and attest audit work and is designed to assess whether transactions and

## Audit Activities

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other aspects of operations are in compliance with legislative or other requirements.

The primary focus of compliance audits relates to legislative requirements. Legislation, regulations, orders in council and corporate by-laws may set out directions, conditions and limitations that affect the administration and transactions of ministries and agencies and with which they must comply.

A secondary category of compliance audits relates to administrative requirements. Generally, legislation delegates broad financial and administrative powers to governments, ministries and agencies which in turn may establish specific operative rules and directives.

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### Audit of Transfer Payments

#### *General*

Transfer payments, comprising over 70 per cent of government expenditures, represent payments for which the Province does not directly receive goods or services. The payments may be for specific purposes (such as the funding of school boards and universities), or unconditional (such as per capita grants to municipalities).

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#### *Attest/Compliance*

The Office's attest and compliance activities include the testing of selected transfer payments for proper authorizations and calculations, and for compliance with legislative and administrative requirements.

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#### *Value for Money*

Value for money auditing can assist funding ministries/agencies in the fulfillment of their responsibility for ensuring that transfer payments are well managed by the recipients, that is, spent with due regard for economy, efficiency and effectiveness. Such audits may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies.

The Provincial Auditor is not directly involved in this value for money audit process, but may become indirectly involved when assessing the steps taken by a ministry to satisfy itself that funds provided to organizations are being well-managed.

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#### *Inspection Audits of Transfer Payment Recipients*

Section 13 of the Audit Act enables the Provincial Auditor to perform an inspection audit of a transfer payment recipient. Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of inspection audits, the audits cannot be specifically value for money oriented.

## Office of the Provincial Auditor

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The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. Inspection audits may also be carried out by ministry internal auditors pursuant to the terms of agreements with the grant recipients.

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### Scheduling of Audit Activities

#### *Ministry Audits*

Ministry audits are designed to cover all major programs and activities over a four to five year period and are primarily value for money oriented. The frequency of audits depends on a number of factors, including total expenditures, diversity and complexity of operations, and the extent of significant regulatory responsibilities. In addition to these cyclical audits, annual attest audit work is required in the ministries for the expression of an opinion on the Province's financial statements.

Ministry expenditure systems that are processed centrally are audited on a government-wide basis at least once over a four year period. Ministry financial systems that are not centralized are audited on a ministry by ministry basis, as are the major revenue activities across government.

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#### *Agency Audits*

Agency of the Crown audits are always conducted on an annual basis. In addition to the regular attest/compliance audit activities, the Office periodically reviews management's attention to economy and efficiency, and to the measurement of the effectiveness of agency operations.

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## 6.5 Ministry and Agency Reports

### Reporting Process

At the conclusion of each audit the draft report is discussed with senior ministry/agency officials and, where necessary, revised to reflect matters raised in the discussion or by senior Office management in the final review. The final report is issued to the minister and deputy minister or, for agencies, to the board of directors and the minister of the associated ministry. In all cases a copy of the final report is sent to the Secretary of the Management Board of Cabinet. If requested by the ministry or agency, the Office will discuss any aspects of the final report on which they wish clarification or further information.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted in the past year.

## Additional Reporting Matters

### 6.6 Additional Reporting Matters

#### Special Assignments

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (October 1987 to September 1988) covered by this Report, the Office has not been requested by the Legislative Assembly or the Standing Committee on Public Accounts to undertake any special assignments. However, at the request of the Minister of Industry, Trade & Technology, the Office has undertaken a review of various aspects of the operations of the IDEA Corporation. Our report will be submitted to the Minister in the fall of 1988.

### 6.7 Annual Report

#### Reporting Responsibility

Under Section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations. Essentially, the Annual Report includes the following information:

- an opinion on the Province's financial statements as to their fairness and consistency in accordance with stated accounting policies;
- the disclosure of matters of significance noted in the course of audits, including:
  - accounts or essential records improperly maintained;
  - inadequate procedures and rules for the safeguard of public property, the collection of revenue and the authorization of expenditures;
  - money spent without due regard to economy and efficiency; and
  - lack of appropriate procedures to measure and report on the effectiveness of programs.

#### Reporting Process

The main body of the Annual Report consists of sections of audit reports on ministries and agencies issued during the period from October 1987 to September 1988. The steps in the preparation of the Annual Report are as follows:

- Ministry/agency reports are reviewed by the Office's senior management for matters perceived to be of significance or interest to the Assembly.

## Office of the Provincial Auditor

- Selected report items and relevant ministry/agency responses received up to October 14 only (due to printing deadlines) are included in the Annual Report.

Items may also be selected from the management letters issued by public accounting firms auditing agencies of the Crown and Crown controlled corporations.

- The Report is tabled in the Assembly and subsequently referred to the Standing Committee on Public Accounts for review.
- Ministry/agency responses received after October 14, pertaining to sections contained in the Report, are forwarded to the Committee.
- The Committee calls upon representatives of the ministries or agencies to discuss selected sections of the Report in meetings open to the general public.

### *Annual Report Briefing*

Each year an Annual Report briefing is held prior to the tabling of the Report. Arrangements are made for two separate and simultaneous lockups: one for members of the Legislature and their research staff, and one for representatives of the media. The lockups are concluded with a news conference, at which time the Provincial Auditor is available to answer the media's questions.

## 6.8 Public Disclosure of Reports

### **Annual Report**

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

### **Other Reports**

Our individual audit reports issued at the conclusion of each ministry or agency audit, reports to management by the auditors of agencies of the Crown and Crown controlled corporations, or our special assignments for a minister, are not laid before the Legislative Assembly, or a committee of the Assembly. However, the Standing Committee on Public Accounts or any other committee of the Legislature may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and, according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

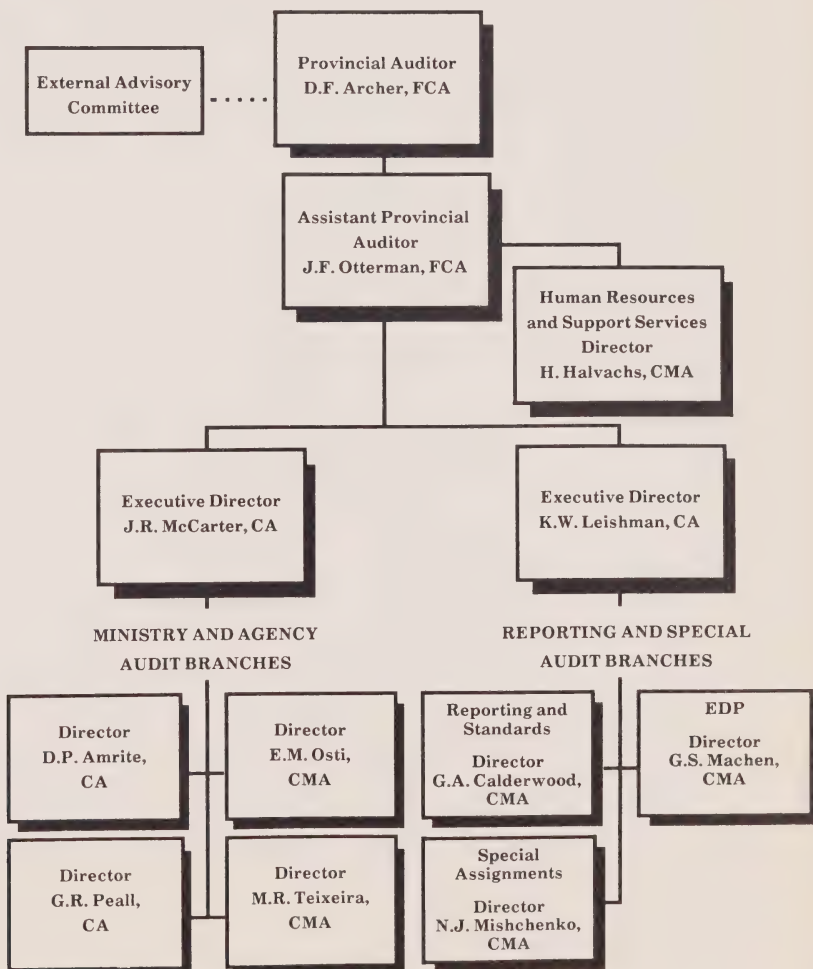
## Office Organization and Personnel

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are presented.

This Office declines requests from the public and media representatives for access to our issued audit reports. In this regard, it should be noted that the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, do not apply to the Office of the Provincial Auditor.

### 6.9 Office Organization and Personnel

The Office is organized as follows:



## Office of the Provincial Auditor

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### *Ministry and Agency Audit Branches*

These four audit branches are responsible for the cyclical audits of ministries and annual audits of agencies of the Crown.

### *Reporting and Standards Branch*

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

### *EDP Branch*

This branch's main responsibilities are EDP audits, including the provision of technical support to other branches and training.

### *Special Assignments Branch*

This branch's main responsibilities are special assignments requested by the Standing Committee on Public Accounts and by ministers. Also, Office initiated audits and reviews of government-wide issues and systems are undertaken.

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### **Advisory Committee**

An external Advisory Committee has been established by the Provincial Auditor to strengthen the function of the Office. The Committee's terms of reference include assessment of the Annual Report and other publicly issued reports, periodic review of the Office's audit approach, analysis of the Office profile, and advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee is composed of five members, all of whom combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of government. At the present time the members of the Advisory Committee are:

|                  |   |
|------------------|---|
| Rendall Dick :   | former Deputy Attorney General and Deputy Treasurer of Ontario;   |
| Patrick Reid :   | former Labour/Liberal MPP; past chairman of the Public Accounts Committee;                                |
| Jack Stokes :    | former New Democratic MPP and Speaker of the Legislative Assembly;  |
| George Taylor :  | former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario; |
| Adam Zimmerman : | Chairman, MacMillan Bloedel; Chairman and Chief Executive Officer, Noranda Forest Inc.                    |

## Office Expenditure

### Personnel

Office staff at September 30, 1988 were as follows:

|   |                   |
|---|-------------------|
| Executive and Directors                 | 12                |
| Managers                                | 16                |
| Supervisors                             | 14                |
| Auditors                                | 13                |
| Auditor Trainees                        | 37                |
| Human Resources and Support<br>Services | <u>13</u>         |
| <b>Total Staff</b>                      | <b><u>105</u></b> |

### 6.10

#### Office Expenditure

The following is the 1988 audited Statement of Expenditure for the Office.

#### Office of the Provincial Auditor Statement of Expenditure year ended March 31, 1988

|   | 1988             |                  | 1987             |                  |
|---|------------------|------------------|------------------|------------------|
|   | Actual           | Estimates        | Actual           | Estimates        |
|   | \$               | \$               | \$               | \$               |
| Salaries and wages  | 4,273,474        | 4,365,700        | 4,138,005        | 4,309,000        |
| Employee benefits   | 611,978          | 790,500          | 522,643          | 620,000          |
| Transportation and<br>communication                                       | 226,220          | 219,000          | 199,736          | 204,000          |
| Services  | 952,912          | 1,011,000        | 536,148          | 567,000          |
| Supplies and<br>equipment   | 201,406          | 178,000          | 615,051          | 621,000          |
| Transfer payment -<br>Canadian<br>Comprehensive<br>Auditing<br>Foundation | <u>44,100</u>    | <u>44,100</u>    | <u>42,400</u>    | <u>42,400</u>    |
|   | 6,310,090        | 6,608,300        | 6,053,983        | 6,363,400        |
| Provincial Auditor's<br>salary  | <u>96,511</u>    | <u>91,500</u>    | <u>90,711</u>    | <u>89,700</u>    |
|   | <u>6,406,601</u> | <u>6,699,800</u> | <u>6,144,694</u> | <u>6,453,100</u> |

## Office of the Provincial Auditor

### Notes:

#### 1. Accounting Policy

The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

#### 2. Estimates

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

### Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1988. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1988 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario  
July 18, 1988

CLARKE HENNING & CO.  
CHARTERED ACCOUNTANTS

### 6.11

#### Canadian Conference of Legislative Auditors

The sixteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Halifax from July 10-13, 1988. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- . the role of public accounts committees and their relationships with legislative auditors;
- . accounting issues relating to the reporting entity, pensions and financial statement presentation for governments; and
- . audit issues relating to debt management.

## CHAPTER 7

### THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

#### 7.1

##### **Appointment and Composition of the Committee**

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

A Standing Committee on Public Accounts was appointed on November 23, 1987, soon after the commencement of the First Session of the Thirty-Fourth Parliament. Membership on the Committee consists of six Liberals, three New Democrats and two Progressive Conservatives for a total of 11 members. The Chairman of the Committee is a member of the Official Opposition Party (New Democratic).

#### 7.2

##### **Role of the Committee**

The Committee is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts. The Committee also reviews matters referred to it by a resolution of the Assembly.

In essence, the role of the Committee, on behalf of Parliament and ultimately the public, is to hold the Cabinet and government bureaucracy accountable for their administration.

In order to fulfill this role, the Committee examines, assesses and reports to the Legislature on a number of issues including the economy and efficiency of operations; effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and reliability and appropriateness of information in the Public Accounts.

##### *Provincial Auditor's Role in the Process*

The Provincial Auditor assists the Committee by presenting information that is relevant to the above issues. This enables the members to deal constructively and intelligently with them.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

#### 7.3

##### **Committee Meetings**

##### **General**

The Committee meets every Thursday morning when the Legislature is in session. For the past several years it has also met during the summer and winter when the Legislature has not been in session. All meetings, with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports, are open to the public.

## The Standing Committee on Public Accounts

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Most Committee meetings deal with those aspects of the operations of government ministries and Crown agencies related to assessing the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

At meetings dealing with ministry operations, a deputy minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, ministers very rarely attend. When the Committee is reviewing Crown agencies, the chief executive officer and, at times, the chairman of the board attend the meetings. They are usually accompanied by senior agency staff.

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### Meetings Held

From November 1987 to September 1988 the Committee held 15 public meetings, which included reviews of various sections of the 1987 Auditor's Report as well as a review of the 1987-88 Estimates of the Office of the Provincial Auditor. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature.

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#### 7.4

#### Other Committee Activities

#### Canadian Council of Public Accounts Committees

The tenth annual meeting of the Council was held in Halifax, from July 10 to 13, 1988. These annual meetings, normally attended by public accounts committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information.

The meeting included an update session on the activities of the various committees and the discussion of a draft report on the model public accounts committee.

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#### Review of Counterpart Operations

As part of its agenda, the Committee travelled to Ottawa and Washington, D.C. to observe the operations of its counterparts in other jurisdictions. In Ottawa, meetings were held with the federal Public Accounts Committee, the Auditor General of Canada and officials of the Office of the Comptroller General. The Washington segment of the trip included meetings with members and staff of various Congressional committees, the Comptroller General, and staff of the U.S. General Accounting Office.

The Committee observed a number of procedural innovations and alternatives during its trips, and has already adopted some procedural approaches which have the potential to increase the Committee's effectiveness.

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## Reports of the Committee

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### 7.5 Reports of the Committee

#### General

The Committee has adopted a new approach in reporting to the Legislature, whereby it tables separate reports on the issues as they are reviewed. It is felt that this approach has the following advantages: it allows reports to be finalized while still fresh in the minds of Committee members; the Committee's recommendations on actions to be taken by the ministry/agency can be monitored and followed up on a more timely basis; and, by making its work public on an issue-by-issue basis, the enhanced media coverage will increase the public awareness of the Committee's role in the accountability process.

Each Report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations.

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#### Completed Reports

During the Legislature's spring session and summer adjournment, the Committee issued five Interim Reports relating to various sections of the 1987 Auditor's Report as well as a Special Report on the Estimates Process.

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#### Status of Committee Report Recommendations

Exhibit 7 of our current year's report summarizes the recommendations contained in the five 1988 Interim Reports. It also contains previous recommendations, the status of which was considered unresolved per Exhibit 9 of our 1987 Report.

**The Standing Committee on Public Accounts**

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## EXHIBITS

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### Summary of Audits and Reviews Performed:

1. - Government-Wide Matters and Special Reviews.
2. - Ministry Audits.
3. - Agency of the Crown Audits, year ended March 31, 1988.
4. - Crown Controlled Corporations, year ended March 31, 1988.
5. Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1988.
6. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.
7. Status of Recommendations Contained in the Reports of the Standing Committee on Public Accounts to the Legislative Assembly.

## EXHIBIT 1

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### Government-Wide Matters and Special Reviews

- \* . Accountability for Transfer Payments
- \* . Legislative Review of the Estimates
- \* . Government Advertising and Communications Expenditures
  - Agriculture and Food
  - Energy
  - Environment
  - Housing
  - Tourism and Recreation
  - Management Board Secretariat
- \* . Inspection Audit, Trent University, Ministry of Colleges and Universities

\*These matters appear in Chapter 2 of this Report.

## EXHIBIT 2

### Ministry Audits

#### *Cabinet Office*

#### *Community and Social Services*

- \* . Income Maintenance Activity

#### *Consumer and Commercial Relations*

- \* . Registrar General Activity, Vital Statistics Information System

#### *Culture and Communications*

- \* . Community Facilities Activity

#### *Education*

- \* . Provincial Support for Elementary and Secondary Education Activity

#### *Environment*

- \* . Project Engineering Activity
- . Utility Operations Activity
- . Utility Service Revenue

#### *Government Services*

- \* . Computer and Telecommunication Services Program

#### *Health*

- \* . Hospital and Related Facilities Activity

#### *Housing*

- . Repayable Grants

#### *Municipal Affairs*

- . Repayable Grants
- \* . Unconditional Grants

#### *Natural Resources*

- \* . Aviation and Fire Management Activity
- \* . Extra Fire Fighting Activity

#### *Office of the Lieutenant Governor*

#### *Office of the Premier*

#### *Revenue*

- \* . Taxation Revenue - Gasoline, Diesel and Aviation Fuels,  
Tobacco and Land Transfer Taxes
- . Unclassified Payroll

#### *Solicitor General*

- . Investigations Activity

#### *Transportation*

- \* . Capital, Construction and Maintenance Activity
- \* . Design Activity

\* These matters appear in Chapter 3 of this Report.

## EXHIBIT 3

**Agency of the Crown  
Audits**

year ended March 31, 1988

*(i) Agencies whose accounts are audited by the Provincial Auditor.*

- \* Accountant of the Supreme Court of Ontario, The  
Agricultural Rehabilitation and Development  
Directorate of Ontario
- Alcoholism and Drug Addiction Research Foundation
- \* Algonquin Forestry Authority
- Centennial Centre of Science and Technology, The
- Commission on Election Finances
- \* Crop Insurance Commission of Ontario, The
- \* Eastern Ontario Development Corporation
- Egg Fund Board (December 26)
- Environmental Compensation Corporation
- \* Farm Income Stabilization Commission of Ontario
- Fund for Milk and Cream Producers, The, -  
The Ontario Farm Products Marketing Commission
- Grain Financial Protection Board
- IDEA Information Technology Fund Inc.
- IDEA Innovation Fund Inc.
- IDEA Research Investment Fund Inc.
- Innovation Ontario Corporation
- Legal Aid Fund, Law Society of Upper Canada, The
- \* Liquor Control Board of Ontario
- Liquor Licence Board of Ontario
- Live Stock Financial Protection Board, The
- McMichael Canadian Collection, The
- \* Niagara Parks Commission, The (October 31)
- \* Northern Ontario Development Corporation
- Office of the Assembly
- Office of the Information and Privacy Commissioner
- Office of the Official Guardian
- Office of the Ombudsman
- Ontario Agricultural Museum
- Ontario Cancer Treatment and Research Foundation, The
- \* Ontario Development Corporation
- Ontario Educational Communications Authority, The
- Ontario Film Development Corporation, The
- Ontario Food Terminal Board
- Ontario Heritage Foundation, The
- \* Ontario Housing Corporation (December 31)
- Ontario Industrial Training Institute
- \* Ontario International Corporation
- \* Ontario Junior Farmer Establishment Loan Corporation, The
- \* Ontario Lottery Corporation
- Ontario Mortgage Corporation
- \* Ontario Municipal Improvement Corporation, The
- \* Ontario Northland Transportation Commission (December 31)
- \* Ontario Place Corporation
- Ontario Racing Commission
- Ontario Stock Yards Board (June 30)
- Ontario Telephone Development Corporation, The

## Crown Agency Audits

- 
- \* Ontario Waste Management Corporation
  - Owen Sound Transportation Company Limited, The  
(December 31)
  - Pension Commission of Ontario
  - Potato Financial Protection Board
  - Processing-Vegetable Financial Protection Board
  - Province of Ontario Council for the Arts
  - \* Provincial Judges Benefits Fund
  - Public Complaints Commissioner
  - \* Public Service Superannuation Fund
  - \* Public Trustee of the Province of Ontario, The
  - Rent Review Hearings Board
  - Soldiers' Aid Commission
  - St. Clair Parkway Commission, The (December 31)
  - St. Lawrence Parks Commission, The
  - Star Transfer Limited (December 31)
  - \* Superannuation Adjustment Fund
  - Tobacco Producers' Assistance Fund

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(ii) *Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.*

- Board of Community Mental Health Clinic, Guelph
- Clarke Institute of Psychiatry
- Ontario Cancer Institute, The
- Ontario Mental Health Foundation
- \* Teachers' Superannuation Fund (December 31)
- \* Toronto Area Transit Operating Authority
- \* Workers' Compensation Board (December 31)

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NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

- \* Audited financial statements reproduced in 1987-88 Public Accounts, the majority appearing in Volume 2.

## EXHIBIT 4

**Crown Controlled  
Corporations**  
year ended March 31, 1988

*Corporations whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.*

- † Board of Funeral Services
- Board of Governors of The Ontario Institute for Studies in Education, The
- † Board of Ophthalmic Dispensers
- † Board of Radiological Technicians
- Corporation of the Improvement District of Cameron
- Corporation of the Improvement District of Dubreuilville
- Corporation of the Improvement District of Gauthier
- Corporation of the Improvement District of Kingsford
- Corporation of the Improvement District of Matachewan
- † Corporation of the Improvement District of Shedden
- † Governing Board of Dental Technicians
- Governing Board of Denture Therapists
- Metropolitan Toronto Convention Centre Corporation
- Moosonee Development Area Board
- Ontario Board of Examiners in Psychology
- † \* Ontario Centre for Advanced Manufacturing
- \* Ontario Centre for Automotive Parts Technology
- † \* Ontario Centre for Farm Machinery and Food Processing Technology
- \* Ontario Centre for Microelectronics
- † \* Ontario Centre for Resource Machinery Technology
- Ontario Cream Producers' Marketing Board
- \* Ontario Energy Corporation
- Ontario Historical Studies Series
- \* Ontario Hydro
- Ontario Milk Marketing Board, The
- Ontario Municipal Employees Retirement Board
- Ontario Research Foundation
- Ontario Share and Deposit Insurance Corporation
- Ontario Trillium Foundation
- Royal Ontario Museum, The
- † Science North
- † \* Stadium Corporation of Ontario Limited
- Thunder Bay Ski Jumps Limited
- \* Urban Transportation Development Corporation Limited

\* Audited financial statements reproduced in 1987-88 Public Accounts, the majority appearing in Volume 2.

† Audit reports and working paper files reviewed by the Office during the year ended September 30, 1988.

## EXHIBIT 5

## Management Board Orders

Amounts Authorized and

Expended Thereunder

year ended March 31, 1988

| Ministry                             | Date of Order | Authorized         | Expended           |
|--------------------------------------|---------------|--------------------|--------------------|
|                                      |               | \$                 | \$                 |
| Agriculture and Food                 | Jan. 26, 1988 | 29,000,000         | 29,000,000         |
|                                      | Feb. 9, 1988  | 5,114,100          | 4,428,763          |
|                                      | Feb. 16, 1988 | 1,376,000          | 1,375,981          |
|                                      | Mar. 22, 1988 | 20,000,000         | 7,388,349          |
|                                      | Apr. 12, 1988 | <u>961,700</u>     | <u>612,714</u>     |
|                                      |               | <u>56,451,800</u>  | <u>42,805,807</u>  |
| Attorney General                     | Feb. 9, 1988  | 1,750,000          | 1,750,000          |
|                                      | Mar. 8, 1988  | 4,909,700          | 4,826,303          |
|                                      | Mar. 29, 1988 | <u>18,703,300</u>  | <u>16,956,228</u>  |
|                                      |               | <u>25,363,000</u>  | <u>23,532,531</u>  |
| Citizenship                          | Apr. 12, 1988 | <u>325,100</u>     | <u>158,594</u>     |
| Colleges and Universities            | Mar. 8, 1988  | 286,500            | 237,496            |
|                                      | Mar. 29, 1988 | <u>1,654,300</u>   | <u>975,121</u>     |
|                                      |               | <u>1,940,800</u>   | <u>1,212,617</u>   |
| Community and<br>Social Services     | Mar. 8, 1988  | 148,245,700        | 147,622,082        |
|                                      | Mar. 22, 1988 | <u>32,351,100</u>  | <u>29,713,551</u>  |
|                                      |               | <u>180,596,800</u> | <u>177,335,633</u> |
| Consumer and<br>Commercial Relations | Feb. 2, 1988  | 1,249,700          | 1,206,888          |
|                                      | Mar. 8, 1988  | <u>5,138,900</u>   | <u>4,278,132</u>   |
|                                      |               | <u>6,388,600</u>   | <u>5,485,020</u>   |
| Correctional Services                | Feb. 16, 1988 | 35,461,100         | 35,409,758         |
|                                      | Mar. 1, 1988  | 413,700            | 399,329            |
|                                      | Mar. 22, 1988 | <u>7,393,800</u>   | <u>6,591,521</u>   |
|                                      |               | <u>43,268,600</u>  | <u>42,400,608</u>  |

## Exhibit 5

| Ministry                    | Date of Order | Authorized         | Expended           |
|-----------------------------|---------------|--------------------|--------------------|
|                             |               | \$                 | \$                 |
| Culture and Communications  | Jan. 19, 1988 | 912,300            | 912,300            |
|                             | Mar. 1, 1988  | 428,700            | 384,711            |
|                             | Mar. 8, 1988  | 3,593,500          | 3,529,313          |
|                             | Mar. 29, 1988 | 1,358,000          | 1,272,192          |
|                             | Apr. 12, 1988 | <u>767,600</u>     | <u>736,682</u>     |
|                             |               | <u>7,060,100</u>   | <u>6,835,198</u>   |
| Office for Disabled Persons | Mar. 29, 1988 | <u>360,000</u>     | <u>324,262</u>     |
|                             |               |                    |                    |
| Education                   | Dec. 8, 1987  | 128,300            | 128,300            |
|                             | Dec. 15, 1987 | 1,231,700          | 1,231,700          |
|                             | Jan. 12, 1988 | 3,950,000          | 3,950,000          |
|                             | Feb. 23, 1988 | 960,000            | 960,000            |
|                             | Mar. 8, 1988  | 6,423,600          | 5,237,794          |
|                             | Mar. 29, 1988 | 2,660,900          | 2,120,440          |
|                             | Apr. 12, 1988 | <u>366,300</u>     | <u>281,468</u>     |
|                             |               | <u>15,720,800</u>  | <u>13,909,702</u>  |
| Energy                      | Mar. 29, 1988 | 250,000            | 234,071            |
|                             | Apr. 12, 1988 | <u>40,000</u>      | <u>38,255</u>      |
|                             |               | <u>290,000</u>     | <u>272,326</u>     |
| Environment                 | Mar. 8, 1988  | 9,191,800          | 9,017,428          |
|                             | Apr. 12, 1988 | <u>1,266,300</u>   | <u>1,086,363</u>   |
|                             |               | <u>10,458,100</u>  | <u>10,103,791</u>  |
| Financial Institutions      | Feb. 2, 1988  | 1,410,100          | 1,226,206          |
|                             | Mar. 8, 1988  | 1,297,200          | 819,665            |
|                             | Apr. 12, 1988 | <u>4,224,400</u>   | <u>4,020,056</u>   |
|                             |               | <u>6,931,700</u>   | <u>6,065,927</u>   |
| Government Services         | Mar. 29, 1988 | <u>17,807,100</u>  | <u>17,590,443</u>  |
| Health                      | Mar. 8, 1988  | 3,373,400          | 3,373,242          |
|                             | Mar. 22, 1988 | 60,182,000         | 59,972,568         |
|                             | Mar. 29, 1988 | 6,738,400          | 6,514,766          |
|                             | Apr. 12, 1988 | <u>203,765,100</u> | <u>203,247,252</u> |
|                             |               | <u>274,058,900</u> | <u>273,107,828</u> |

## Management Board Orders

| Ministry                          | Date of Order | Authorized        | Expended          |
|-----------------------------------|---------------|-------------------|-------------------|
|                                   |               | \$                | \$                |
| Housing                           | Mar. 29, 1988 | <u>3,546,300</u>  | <u>2,398,535</u>  |
| Industry, Trade and Technology    | Feb. 2, 1988  | 550,000           | 550,000           |
|                                   | Feb. 23, 1988 | 154,900           | 153,219           |
|                                   | Mar. 1, 1988  | 84,000            | 78,005            |
|                                   | Mar. 29, 1988 | 2,159,600         | 2,105,918         |
|                                   | Apr. 12, 1988 | <u>1,155,900</u>  | <u>1,146,998</u>  |
|                                   |               | <u>4,104,400</u>  | <u>4,034,140</u>  |
| Intergovernmental Affairs         | Dec. 1, 1987  | 852,400           | 852,400           |
|                                   | Jan. 19, 1988 | 217,600           | 217,600           |
|                                   | Mar. 1, 1988  | 165,200           | 86,863            |
|                                   | Mar. 8, 1988  | 636,400           | 552,679           |
|                                   | Mar. 29, 1988 | <u>221,600</u>    | <u>148,694</u>    |
|                                   |               | <u>2,093,200</u>  | <u>1,858,236</u>  |
| Labour                            | Jan. 26, 1988 | 770,200           | 770,200           |
|                                   | Mar. 1, 1988  | 408,700           | 404,616           |
|                                   | Mar. 29, 1988 | <u>4,295,200</u>  | <u>3,909,858</u>  |
|                                   |               | <u>5,474,100</u>  | <u>5,084,674</u>  |
| Office of the Lieutenant Governor | Mar. 29, 1988 | <u>30,000</u>     | <u>29,431</u>     |
| Management Board of Cabinet       | Feb. 2, 1988  | 801,000           | 801,000           |
|                                   | Feb. 23, 1988 | 361,100           | 358,168           |
|                                   | Apr. 12, 1988 | <u>3,276,600</u>  | <u>2,829,763</u>  |
|                                   |               | <u>4,438,700</u>  | <u>3,988,931</u>  |
| Municipal Affairs                 | Mar. 29, 1988 | <u>2,167,800</u>  | <u>1,827,414</u>  |
| Natural Resources                 | July 21, 1987 | 3,000,000         | 3,000,000         |
|                                   | Aug. 18, 1987 | 3,100,000         | 3,100,000         |
|                                   | Oct. 13, 1987 | 3,000,000         | 3,000,000         |
|                                   | Dec. 8, 1987  | 2,000,000         | 1,602,429         |
|                                   | Mar. 1, 1988  | 902,500           | 902,500           |
|                                   | Mar. 22, 1988 | <u>16,463,100</u> | <u>15,698,070</u> |
|                                   |               | <u>28,465,600</u> | <u>27,302,999</u> |

## Exhibit 5

| Ministry  | Date of Order | Authorized         | Expended           |
|---|---------------|--------------------|--------------------|
|   |               | \$                 | \$                 |
| Northern Development<br>and Mines                 | Feb. 23, 1988 | 1,038,600          | 964,211            |
|   | Mar. 22, 1988 | 1,899,000          | 1,752,016          |
|   | Apr. 12, 1988 | 420,000            | 419,549            |
|   |               | <u>3,357,600</u>   | <u>3,135,776</u>   |
|   |               |                    |                    |
| Office of the Premier                             | Mar. 22, 1988 | <u>258,000</u>     | <u>214,455</u>     |
|   |               |                    |                    |
| Revenue   | Feb. 23, 1988 | 4,221,500          | 4,195,521          |
|   | Mar. 1, 1988  | 349,000            | 347,940            |
|   | Mar. 8, 1988  | 236,100            | 191,247            |
|   | Mar. 22, 1988 | <u>12,228,000</u>  | <u>11,815,996</u>  |
|   |               | <u>17,034,600</u>  | <u>16,550,704</u>  |
|   |               |                    |                    |
| Office Responsible for<br>Senior Citizens Affairs | Mar. 29, 1988 | <u>125,000</u>     | <u>104,275</u>     |
|   |               |                    |                    |
| Skills Development                                | Oct. 27, 1987 | 5,500,000          | 5,500,000          |
|   | Apr. 12, 1988 | <u>300,000</u>     | <u>176,042</u>     |
|   |               | <u>5,800,000</u>   | <u>5,676,042</u>   |
|   |               |                    |                    |
| Solicitor General                                 | Mar. 8, 1988  | <u>25,256,900</u>  | <u>23,909,275</u>  |
|   |               |                    |                    |
| Tourism and Recreation                            | Mar. 1, 1988  | 2,720,700          | 2,720,479          |
|   | Mar. 29, 1988 | 1,075,800          | 1,075,643          |
|   | Apr. 12, 1988 | <u>113,000</u>     | <u>33,400</u>      |
|   |               | <u>3,909,500</u>   | <u>3,829,522</u>   |
|   |               |                    |                    |
| Transportation and<br>Communications              | Mar. 1, 1988  | 20,121,100         | 19,451,332         |
|   | Mar. 8, 1988  | 6,888,600          | 6,506,432          |
|   | Apr. 12, 1988 | <u>20,389,200</u>  | <u>19,510,501</u>  |
|   |               | <u>47,398,900</u>  | <u>45,468,265</u>  |
|   |               |                    |                    |
| Treasury and Economics                            | Mar. 29, 1988 | <u>1,508,000</u>   | <u>1,284,780</u>   |
|   |               |                    |                    |
| Total Management Board Orders                     |               | <u>801,990,000</u> | <u>767,837,741</u> |

## EXHIBIT 6

### Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports

(See Note)

| <u>Report</u>  | <u>Section</u> | <u>Description/Status</u>  |
|--|----------------|--|
| <b>RESOLVED AS AT DATE OF PREPARATION OF 1988 AUDITOR'S REPORT</b> |                |  |
| <i>GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS</i>                 |                |  |
| 1987   | 3.3            | Observations on the government payments system for goods and services.<br>- Implemented.   |
| 1987   | 3.4            | Improvements needed, ministry internal audit operations.<br>- In process of implementation.  |
| 1987   | 3.5            | Observations regarding the use of chartered and government passenger aircraft.<br>- Implemented.   |
| <i>MINISTRIES</i>  |                |  |
| <b>Ministry of the Attorney General</b>                            |                |  |
| 1985   | 3.4            | Improvements required over management and financial controls, County and District Courts Activity.<br>- In process of implementation.  |
| 1987   | 4.3            | Effectiveness not measured and staff underutilized, Driver Improvement Program.<br>- Implemented.  |
| <b>Ministry of Citizenship and Culture</b>                         |                |  |
| 1985   | 3.5            | Excess funding for construction of the Sudbury Science Centre.<br>- Implemented.   |
| <b>Ministry of Colleges and Universities</b>                       |                |  |
| 1984   | 3.6            | Potential for improved delivery of Apprentice Training Program.<br>- Not implemented. Ministry has difficulty in forecasting the utilization of training sessions because changing economic conditions affect the attendance of the apprentices. |
| 1987   | 4.4            | Additional monitoring and verification of information required, Ontario Student Assistance Program.<br>- Substantially implemented.  |

## Exhibit 6

| <u>Report</u>  | <u>Section</u> | <u>Description/Status</u>  |
|--|----------------|--|
| <b>Ministry of Community and Social Services</b>     |                |  |
| 1986   | 4.3            | Inadequate inspection procedures, Homes for the Aged.<br>- In process of implementation.                               |
| <b>Ministry of Consumer and Commercial Relations</b> |                |  |
| 1986   | 4.4            | Improvements needed in controls over lottery licences.<br>- In process of implementation.                              |
| <b>Ministry of the Environment</b>                   |                |  |
| 1983   | 3.8            | Operating and other deficiencies, Environmental Control Program.<br>- Implemented.                                     |
| 1987   | 4.7            | Improved pollution enforcement procedures needed, Environmental Control Program.<br>- In process of implementation.    |
| <b>Ministry of Financial Institutions</b>            |                |  |
| 1986   | 4.5            | Compliance with legislation not monitored, credit unions.<br>- In process of implementation.                           |
| <b>Ministry of Health</b>                            |                |  |
| 1984   | 3.14           | Excessive costs incurred re payments under Ontario Drug Benefit Plan.<br>- Implemented.                                |
| 1984   | 3.15           | Potential for increased revenue and recoveries, Ontario Health Insurance Plan.<br>- Partially implemented.             |
| 1985   | 3.13           | Observations re inspections of nursing homes.<br>- In process of implementation.                                       |
| 1986   | 4.6            | Inequitable funding arrangements and weak monitoring of public health programs.<br>- In process of implementation.     |
| <b>Ministry of Labour</b>                            |                |  |
| 1986   | 4.7            | Improvements in operational efficiency required in Human Rights Commission Program.<br>- In process of implementation. |

## Status of Previous Annual Report Recommendations

| <u>Report</u>  | <u>Section</u> | <u>Description/Status</u>   |
|--|----------------|---|
| 1986   | 4.8            | Operational improvements warranted, Occupational Health and Safety Program.<br>- In process of implementation.  |
| <b>Ministry of Skills Development</b>                |                |   |
| 1987   | 4.11           | Excess funding and non-compliance with guidelines, Youth Opportunities Activity.<br>- In process of implementation.   |
| <b>Ministry of the Solicitor General</b>             |                |   |
| 1987   | 4.12           | Observations on the OPP Telecommunications Project and Office of the Chief Coroner.<br>- In process of implementation.  |
| <b>Ministry of Tourism and Recreation</b>            |                |   |
| 1986   | 4.12           | Weak monitoring of projects funded.<br>- Substantially implemented.   |
| <b>Ministry of Transportation and Communications</b> |                |   |
| 1987   | 4.14           | Good project control but some construction priorities questionable.<br>- Substantially implemented.   |
| <i>CROWN AGENCIES</i>                                |                |   |
| <b>Liquor Control Board of Ontario</b>               |                |   |
| 1987   | 5.2            | Operating deficiencies.<br>- In process of implementation.  |
| <b>The Niagara Parks Commission</b>                  |                |   |
| 1987   | 5.3            | Cost evaluation suggested for police operations.<br>- Not implemented. The Commission declined to carry out a specific cost evaluation but indicated that, on an ongoing basis, it would continue to monitor the costs and utilization of the police force. |
| <b>Ontario Housing Corporation</b>                   |                |   |
| 1987   | 5.4            | Observations on cost overruns and other matters.<br>- In process of implementation.   |

## Exhibit 6

| <u>Report</u>  | <u>Section</u> | <u>Description/Status</u>   |
|--|----------------|---|
| <b>The St. Lawrence Parks Commission</b>                               |                |   |
| 1987   | 5.5            | Potential for savings in administration costs.<br>- In process of implementation.                             |
| <b>Workers' Compensation Board</b>                                     |                |   |
| 1987   | 5.6            | Matters of concern, Downsview Rehabilitation Centre.<br>- Partially implemented.                              |
| <hr/> <b>IN PROCESS OF REVIEW OR TO BE VERIFIED IN FUTURE AUDITS *</b> |                |   |
| <b>Ministry of Agriculture and Food</b>                                |                |   |
| 1987   | 4.2            | Good administrative procedures but inadequate effectiveness indicators, Farm Interest Rate Reduction Program. |
| <b>Ministry of Correctional Services</b>                               |                |   |
| 1987   | 4.5            | Improved administration required, Institutional Services Activity.  |
| <b>Ministry of Education</b>   |                |   |
| 1983   | 3.7            | Deficiencies in accountability process re General Legislative Grants.   |
| 1987   | 4.6            | Better effectiveness indicators needed, Blind, Deaf and Demonstration Schools Activity.                       |
| <b>Ministry of Government Services</b>                                 |                |   |
| 1985   | 3.12           | More economical and efficient use of accommodation warranted.   |
| <b>Ministry of Health</b>  |                |   |
| 1987   | 4.8            | Weak procedures and controls, Health Insurance Program.   |
| 1987   | 4.9            | Problems in mental health care.   |

## Status of Previous Annual Report Recommendations

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u>                              |
|---------------|----------------|--|
|               |                | <b>Ministry of Northern Development and Mines</b>      |
| 1987          | 4.10           | Weak management practices, Mines and Minerals Program. |

---

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 8 of the 1987 Auditor's Report.
- (b) contained in the body of the 1987 Auditor's Report.

\* As the Office conducts ministry audits on a cyclical basis, the status of the recommendations will not be determined until a future audit is scheduled for the area involved.

## EXHIBIT 7

### Status of Recommendations Contained in the Reports of The Standing Committee on Public Accounts to the Legislative Assembly

### Introduction

This exhibit summarizes recommendations contained in the Standing Committee on Public Accounts' five Interim Reports tabled in the Legislature in 1988. The exhibit also contains previous recommendations, the status of which was considered unresolved per Exhibit 9 of our 1987 Report.

#### Date of Report

#### Recommendation/Status

March 5, 1985

### **Accountability of Crown Agencies**

- \*The Committee recommended that the Legislative Assembly examine the Provincial Auditor's concerns relating to the accountability of Crown agencies.

#### *Status:*

The Standing Committee on Government Agencies has been given the mandate to review the operation of all agencies, boards and commissions (regulatory, operating and advisory). The Committee is empowered to make recommendations regarding the accountability of agencies, the revision of their mandates and roles, and the redundancy and sunseting of agencies. The Committee has reviewed the operations of four agencies and made recommendations in its June 1988 report.

September 19, 1986  
(Interim)  
February 12, 1987  
(Final)

- \*The Committee made 13 recommendations with respect to the issue of conflict of interest, including recommendations that the 1985 guidelines on the matter be studied by a special committee of the Legislature and that the guidelines be embodied in legislation.

#### *Status:*

A 1987 Bill failed to pass the third and final reading before a Provincial election was called for September 10, 1987. New conflict of interest legislation was introduced in the first session of the new Legislature as Bill #1, an Act respecting Conflicts of Interest of Members of the Assembly and the Executive Council. The Bill passed all readings and came into force on February 11, 1988.

In all material respects the new Act incorporates the recommendations of the Committee and the requirements of the 1985 guidelines.

February 12, 1987

### **\*Ministry of the Attorney General**

1. The Committee recommended that the Ministry of the Attorney General make better use of existing courtroom facilities by scheduling more trials for the summer months of July and August and that consideration be given to increasing courtroom use during evening hours.

## Status of Public Accounts Committee Recommendations

### Date of Report

### Recommendation/Status

2. The Committee recommended that cases be heard in locations which are convenient for the accused and other parties involved, and acknowledged that efforts to address this legal jurisdictional problem were underway. The Committee further recommended that remote northern communities in particular be better served by the relocation of smaller courts to these areas.
3. The Committee recommended that the Ministry undertake a comparative study of court scheduling and procedures in other jurisdictions, particularly in the United States, to determine how its own system might be improved. The Committee accepted the Ministry's undertaking to provide the Committee with such information once it becomes available.
4. The Committee recommended that the Ministry address the problem of an insufficient number of justices of the peace by seeking to have more of these Order-in-Council appointments filled.

### *Status:*

On June 26, 1987 the Deputy Attorney General informed the Committee that Mr. Justice T. Zuber would be reporting in July 1987 on his review of Ontario's court system. The Ministry would then address the recommendations of the Committee and Mr. Justice Zuber.

In a letter dated June 16, 1988 the Deputy Attorney General advised as follows:

1. "While the provision of courtroom facilities is the responsibility of the Ministry, trial scheduling is an area of shared responsibility with the Judiciary. Over the past year, the Attorney General has emphasized that the effective management and deployment of resources in the justice system is essential if the public is to be effectively served within available financial resources. In this regard, efforts have been underway to work with the Judiciary to attempt to ensure optimal use of courtroom facilities.

"Currently, the Provincial Court sits on a year-round basis, with evening sittings scheduled in Toronto in the criminal and civil divisions. In the Supreme and District Courts, motions and landlord and tenant matters and pre-trial conferences continue throughout the summer months, and there are attempts made to schedule non-jury trials where possible.

"The Ministry currently has studies underway relating to courtroom utilization, judicial resource requirements and delay reduction programs. In addition, the Ministry intends to pursue discussions with representatives of the Ontario Courts Advisory Council to identify further opportunities to maximize the use of courtroom facilities."

2. "The Ministry has established a working group, which includes representation from local groups and from other ministries, to review the issue of the administration of justice in the remote north. As part of this initiative, surveys have been conducted regarding the 'fly-in' court system

## Exhibit 7

### Date of Report

### Recommendation/Status

in the north and a study on the delivery of legal aid services in the remote north has been completed. The Ministry is currently assessing alternative strategies in an effort to improve court services in remote northern communities."

3. "As the Committee may be aware, the issue of effective caseload management was one of the more significant issues raised by the Ontario Courts Inquiry in its 1987 report on the court system. Ministry staff are currently reviewing the Report's recommendations and assessing optional strategies for court reform.

"Within the specific area of delay reduction and caseload management, a working group has completed a comparative study of court scheduling practices in both the United States and Britain. In addition, a noted American expert in this area met with the Ministry's senior management team and senior members of the Judiciary for a full-day session on May 30th. Ministry staff, working closely with the Chief Judge of the Provincial Court (Criminal Division), have identified six locations where local delay reduction programmes could be implemented. The Ministry will be in a position to provide details to the Committee within the next few months with respect to these initiatives."

4. "The Ministry currently has a Bill before the Legislature to revise the Justices of the Peace Act. This legislation, which received first reading on January 6, 1988, is intended to ensure a more professional and effective level of justice of the peace service by :

- establishing full-time justice of the peace positions, where possible, in order to increase the level of consistency and delivery of service throughout the province; and
- establishing the position of Co-ordinator of justices of the peace, which will have direct responsibility for the overall provision of services throughout Ontario.

"It is anticipated that a revised system of determining justice of the peace resource needs will be implemented as part of this initiative. In the interim, vacancies will continue to be filled as quickly as possible. "

February 12, 1987

### **\* Industrial Accident Prevention Association (IAPA)**

The Committee made 20 recommendations with regard to the IAPA's financial and administrative operations and implementation of related measures to improve health and safety services. A number of these recommendations involved the Workers' Compensation Board and/or the Ministry of Labour.

## Status of Public Accounts Committee Recommendations

### Date of Report

### Recommendation/Status

#### *Status :*

The status of the recommendations was obtained through our 1987/88 follow-up review of the IAPA and by correspondence from the Chairman of the Workers' Compensation Board (WCB) on June 10, 1988. Our review indicated that a concerted effort had been made by the IAPA in addressing the Committee's recommendations. Most recommendations have been implemented.

The recommendations involving the WCB and the Ministry of Labour have been sufficiently addressed and implemented where practicable.

---

#### **1988 Interim Reports**

The Committee issued five interim reports in 1988. The Committee's recommendations related to the following areas :

- |               |  |
|---------------|--|
| May 26, 1988  | 1. Ministry of Health <ul style="list-style-type: none"> <li>. Procedures and controls in the Ontario Health Insurance Program (OHIP)</li> <li>. Staffing, facilities and operations of psychiatric hospitals</li> </ul> |
| June 16, 1988 | 2. Ministry of the Environment <ul style="list-style-type: none"> <li>. Pollution enforcement procedures</li> <li>. Administrative practices</li> </ul>  |
| June 29, 1988 | 3. Liquor Control Board of Ontario <ul style="list-style-type: none"> <li>. Inventory management, staffing and Durham warehouse operations</li> </ul>  |
| July 6, 1988  | 4. Ontario Housing Corporation <ul style="list-style-type: none"> <li>. Cost overruns and other matters</li> </ul>   |
| August, 1988  | 5. Various other ministries and ministry internal audit operations, as contained in Chapters 3 and 4 of our 1987 Report.   |

#### *Status :*

As at September 30, 1988 responses had not been received.

---

\* Considered sufficiently addressed as at September 30, 1988.



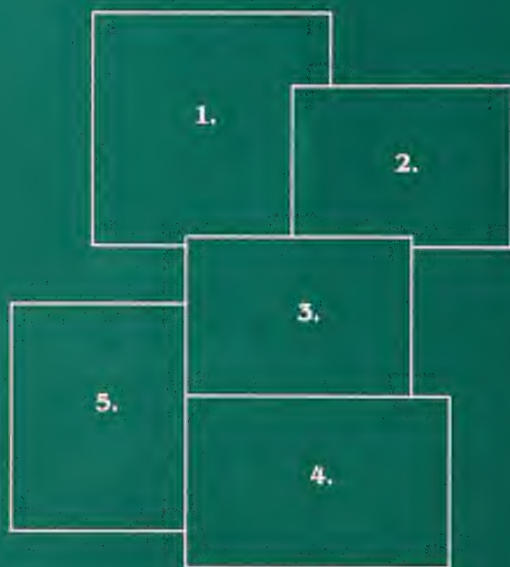
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OFFICE OF THE PROVINCIAL AUDITOR

## 1989 ANNUAL REPORT





Cover photographs courtesy of the communications branches  
of the following ministries:

1. Ministry of Health
2. Ministry of Natural Resources
3. Ministry of Transportation and Communications
4. Ministry of Community and Social Services
5. Ministry of Correctional Services



OFFICE OF THE PROVINCIAL AUDITOR

THE HONOURABLE  
HUGH EDIGHOFFER, M.P.P.

Speaker of the Assembly  
Province of Ontario

Dear Sir:

I am pleased to transmit my report covering audits completed through August 31, 1989, for submission to the Assembly in accordance with the provisions of section 12(1) of the Audit Act.

*D.F. Archer*

D.F. Archer, F.C.A.,  
Provincial Auditor.

Toronto, November 28, 1989.

Copies available at \$4.00 from the Ontario Government Bookstore, 880 Bay Street, Toronto or by writing to Publications Ontario, 5th Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8. Telephone 326-5300. Toll free long distance 1-800-668-9938.

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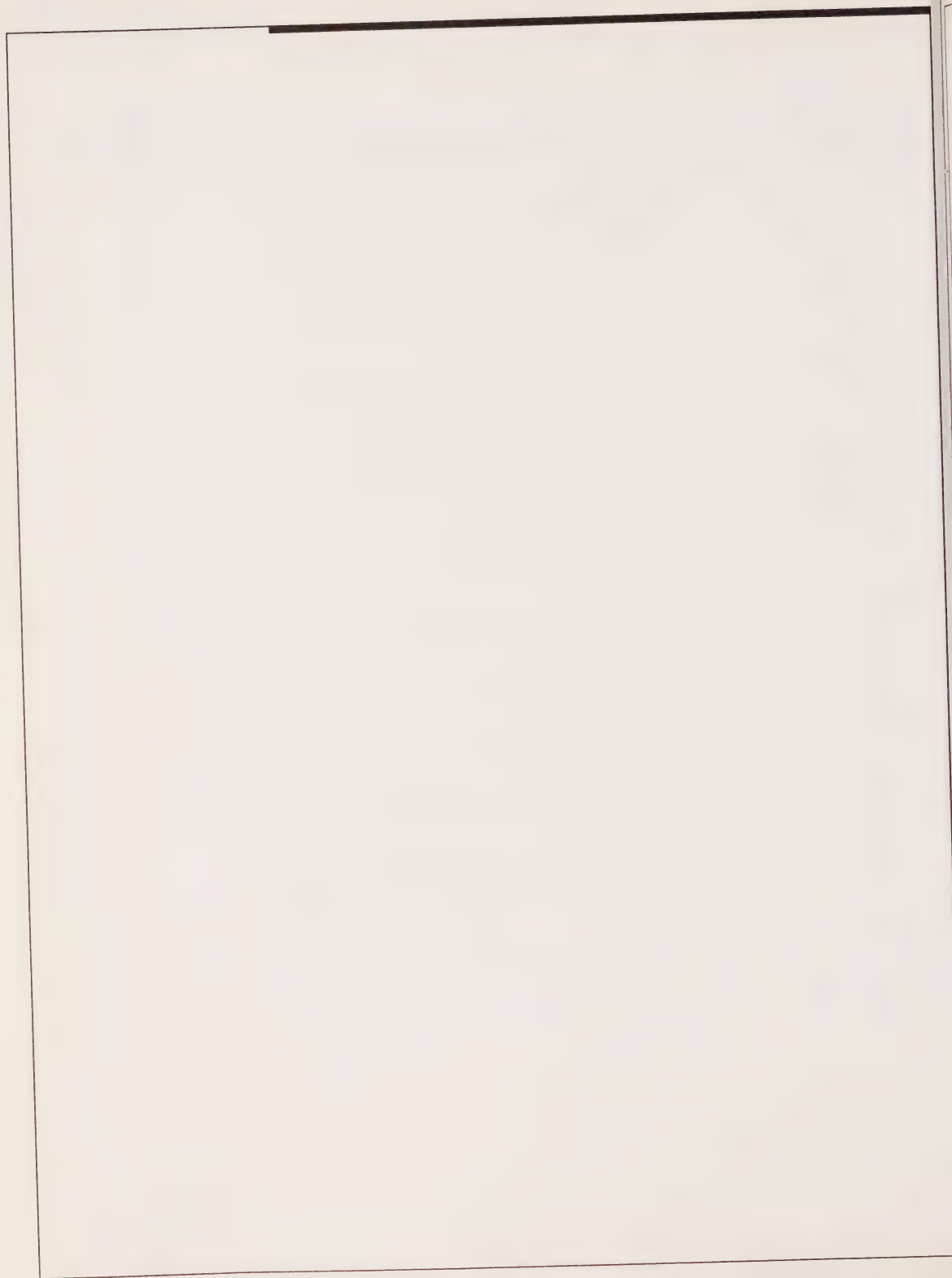
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CHAPTER

1

MATTERS OF SPECIAL INTEREST



## CHAPTER 1

### MATTERS OF SPECIAL INTEREST

#### 1.1

##### Basis of Reporting

The contents of this Report are pursuant to Section 12(2) of the Audit Act. A major provision of the legislation requires that the Auditor bring to the attention of the Legislative Assembly instances where he has observed significant deficiencies in Government administration.

In order to better assist the Assembly in its role of holding the Government accountable, we endeavour to go beyond this basic requirement. In most audits we attempt to assess how well a particular Government function is being administered, and to support that assessment with relevant comments and observations. Generally, therefore, observed matters are reported in the context of a conclusion on the overall quality of administration for the specific area subject to audit.

The Report does contain some observations which are not made in the context of a broad audit conclusion or assessment. These primarily relate to our Crown agency audit activities where the focus of the audit is on the expression of an opinion on the agency's financial statements. The reader is cautioned against drawing unwarranted conclusions from such observed matters. These matters are simply observations relating to specific transactions. It would be incorrect, for example, for the reader to conclude that similar transactions of the particular agency were handled in a like manner.

There is a general view that our Reports unduly emphasize deficiencies without giving credit for the many situations where no significant irregularities were observed. To a large extent this result is unavoidable given the reporting requirements of the Audit Act. However, by constructively auditing, we are able to provide effective recommendations for management's consideration. And, when warranted, we have attempted to moderate this general perception by also drawing attention to some of the positive aspects of Government administration noted in the course of audit.

The most significant results and observations resulting from our scrutiny of selected ministries and agencies are included in the Annual Report. Our selection for inclusion is based not only on the dollar significance of the amounts involved, but also on the importance of a particular issue or concern to the Legislature (Section 5.7). In addition, some purely informational comments are included in the Report because, in our view, the matters should be brought to the attention of the Assembly.

#### 1.2

##### Scope of Audit Activity

The Province's revenue and expenditure for the fiscal year ended March 31, 1989 totalled \$37.3 billion and \$38.7 billion, respectively. Over 25 ministries were involved in the administration of hundreds of revenue and expenditure programs and in the operation of associated financial and information systems.

The size and complexity of Government preclude an audit of all operations on an annual basis. Accordingly, each year, the Office audits a selection of programs and systems that individually expend over \$30 or \$40 million annually, so that over a five-year period management's administration of all major operations is considered for review. This year, we audited 15 major programs/activities in 9 different ministries, primarily for value for money. As well, inspection audits of

## Matters of Special Interest

---

transfer payments to a university and a public hospital were completed. Additionally, three cross-ministry audits of major expenditures for consulting services, travelling and overtime expenses were carried out.

The Provincial Auditor attests to the fairness of the financial statements of the Province and over 60 Crown agencies on an annual basis.

Government policies, or submissions prepared by management for policy development, are not subject to audit. (Section 5.4)

### 1.3

#### Overall Assessment

We are often asked for an assessment of the overall administrative performance of Government. The necessary limitations to the scope of our annual audit, as mentioned in the previous section, provide us with insufficient audit evidence on which to base such an assessment. However, we are not without some conviction in the matter.

With over 100 years of auditing experience, the Office has developed a thorough understanding of the changing nature of the Government and its operating environment. Therefore, based on our professional training and years of experience, it is our view that the Government of Ontario is being satisfactorily administered overall. This view is consistent with that expressed in the past few years. In more quantifiable terms, administrative performance could be rated as a 7 out of 10.

Particularly in the last decade, the Government has been continually challenged to improve its administrative performance just to keep pace with increasing public demands. We believe that this challenge has been met. However, we also believe, as does the Government, that further improvement is a necessary and achievable goal.

We are pleased to report that we received all the information and explanations required, and we acknowledge and thank those from whom we received assistance.

### 1.4

#### Report Synopsis

#### Introduction

The purpose of this section is to provide the reader with an overview of the content included in Chapters 2 and 3. These summaries are abbreviated. Readers are encouraged to refer to the complete text as indicated by the section references.

#### Accountability for Transfer Payments

Developments over the past two years should improve current ministry practices in managing transfer payment programs. Ministries are required by Management Board Directive to establish an accountability framework for each transfer payment program, which clearly sets out the planned objectives and results that the recipient is expected to achieve.

## Report Synopsis

---

It is anticipated that all accountability frameworks will have been approved by the end of the 1990 fiscal year. (Section 2.2)

---

### Estimates Review Process Reformed

In 1989, the Legislature amended the Standing Orders to provide for the establishment of a Standing Committee on Estimates. This Committee will consider the Estimates of not fewer than six and not more than twelve ministries and offices annually. The new procedures for the review of the Estimates should provide for better legislative scrutiny of the Government's spending plans. (Section 2.3)

---

### Government Deficits

This informational section outlines some of the arguments for and against governments accumulating deficits. It also illustrates recent trends with respect to Ontario's deficit. (Section 2.4)

---

### Government-wide Audits

We audited expenditures across several ministries for consulting services, overtime costs and travel expenses. Relevant expenditures for these activities totalled approximately \$340 million in the 1989 fiscal year.

#### *Consulting Services*

We concluded that ministries were generally following government policies and procedures for the purchase of consulting services. Nevertheless, we were concerned that, in some instances, ministries were merely going through the motions of competitive tendering. (Section 2.5)

#### *Overtime*

Overtime was well-managed in the five ministries covered in our review. The overtime was necessary and generally the most economical means of completing the work. However, there were opportunities for reductions in overtime expenditures. (Section 2.6)

#### *Travel Expenses*

We found that adherence to policies and procedures for travel expenses was particularly strong at three of the twelve ministries we examined. At the other nine ministries, there were many examples where employees disregarded policies and procedures, particularly those related to transportation and accommodation. (Section 2.7)

## Matters of Special Interest

---

### Inspection Audits

This year, we audited a second university and conducted our first audit of a public hospital. In the coming year, we will audit one more university and hospital and, for the first time, audit one or more school boards.

#### *Guelph University*

Similar to our experience with the first university audited, we found that improvements were required in enrolment reporting procedures. Overall, accounting records and procedures were satisfactory. However, we had concerns about the awarding of a computer contract, a remuneration package, and the administration of sabbatical leave. (Section 2.8)

#### *York-Finch General Hospital*

On the whole, we found the Hospital accounting records and procedures were satisfactory. We did, however, find some significant deficiencies with regard to the acquisition of equipment, goods and services, and in the control over medical and surgical supplies. (Section 2.9)

---

### Central Common Services

Three of our audits pertained to services provided by the Ministry of Government Services and Human Resources Secretariat to other ministries and offices of the government.

#### *Management of Leased Accommodation, Ministry of Government Services*

Accommodation requirements were not identified on a timely basis. In addition, while leased accommodation was generally acquired economically, the proportion of leased to owned space continued to increase, particularly in Metropolitan Toronto. (Section 3.7)

#### *Repair, Operation and Maintenance, Ministry of Government Services*

Frequently, the necessity of repairs was not demonstrated. In addition, repairs and maintenance services were not acquired economically. (Section 3.8)

#### *Classification System, Human Resources Secretariat*

Position classifications were not kept up-to-date. In addition, the Secretariat did not perform any formal monitoring of classification duties delegated to the ministries. (Section 3.10)

---

### Ministry-delivered Programs

Seven of our audits were of programs or activities carried out directly by ministries.

#### *District Courtrooms, Ministry of the Attorney General*

District courtrooms were not utilized efficiently and there was no formal monitoring of court staff productivity. Also, there was little monitoring of the management practices in Sheriff's Offices. (Section 3.2)

## Report Synopsis

---

### *Community Services Activity, Ministry of Correctional Services*

Although there had been few serious incidences of risk to public safety, breaches of probation conditions frequently occurred without adequate enforcement action. In addition, rehabilitation programs were not adequately identified, planned, executed and assessed. In contrast, we found conditions of parole to be much more strictly monitored and enforced. (Section 3.5)

### *Ontario Board of Parole, Ministry of Correctional Services*

The procedures adopted by the Board for making parole decisions were reasonably effective in safeguarding the public. However, better documentation of the rationale for Board members' decisions and ongoing reviews of selected cases would improve quality and consistency. (Section 3.6)

### *Fisheries and Wildlife Management, Ministry of Natural Resources*

Controls over the issuing of fishing licences and collection of related fees were inadequate. Better planning and monitoring of the enforcement efforts of Conservation Officers were required. Activities to protect and rehabilitate fish and wildlife populations were successful. (Section 3.11)

### *Retail Sales Tax, Ministry of Revenue*

Despite improved audit productivity, a high proportion of small vendors may never be audited. However, the Ministry has been increasingly effective in collecting taxes from delinquent vendors. (Section 3.12)

### *Driver and Vehicle Registration Systems, Ministry of Transportation*

Generally, controls over driver information, vehicle registrations, and the acquisition and use of computer resources were adequate. However, several system and administrative deficiencies were noted. (Section 3.13)

### *Examination, Inspection and Enforcement, Ministry of Transportation*

Overall, driver examination staff productivity was at a high level but compliance with certain key standards and procedures was inadequate. Also, little formal monitoring of inspection and enforcement procedures was being done. (Section 3.14)

---

### **Ministry-funded Programs Delivered by Others**

Three of our audits were of programs or activities where the services were provided by entities outside the ministries.

### *Children's Services Activity, Ministry of Community and Social Services*

Procedures were inadequate to ensure compliance with certain provisions of the Day Nurseries Act, and Ministry-established guidelines. As well, the Ministry did not ensure that subsidies paid for child care were used in a cost-effective manner. (Section 3.3)

## Matters of Special Interest

---

### *Children's Aid Societies, Ministry of Community and Social Services*

The two Children's Aid Societies we audited did not meet various requirements of the Child and Family Services Act and Regulations. In addition, the Ministry did not know whether Children's Aid Societies were providing cost-effective services. (Section 3.4)

### *Land Ambulance Services, Ministry of Health*

The administration of financial settlements with ambulance operators required substantial improvement. Annual inspections of ambulance services were performed satisfactorily; however, follow-up action was lacking. (Section 3.9)

---

#### 1.5

#### **Reacting to Concerns**

The Office of the Provincial Auditor can be contacted by anyone who has concerns about wasteful or inappropriate use of resources in the administration of Ontario Government programs.

Information received will be treated confidentially and considered for appropriate action or investigation. Any significant findings resulting from investigations undertaken will be included in subsequent Annual Reports to the Legislature.

Contact may be made by telephone at (416) 974-9866 or 1-800-668-8516, by facsimile (416) 324-7012 or by writing to :

Office of the Provincial Auditor,  
Box 105, 20 Dundas Street West,  
Toronto, Ontario.  
M5G 2C2

CHAPTER

2

COMMENTS ON  
GOVERNMENT-WIDE MATTERS  
AND SPECIAL REVIEWS



## CHAPTER 2

### COMMENTS ON GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS

#### 2.1

##### Introduction

Comments contained in this segment of the Report result from Government-wide and special reviews. A list of all reviews completed since our last Report is included in Exhibit 1.

#### 2.2

##### Update on Accountability for Transfer Payments

##### *INTRODUCTION*

The primary goal of the Office is to assist the Legislature in holding the Government and its administrators accountable for the stewardship of public funds. Consequently, a continuing concern of the Office has been the need for improved accountability in respect of transfer payments, the largest component of Government expenditures.

In the 1989 fiscal year, transfer payments of \$28.6 billion accounted for approximately 74 per cent of Provincial expenditure. The Government has complete control over approximately one quarter (\$7.3 billion) of these payments, which are made directly to individuals, or to others such as physicians and pharmacists providing services to the public. However, the Government does not have complete control over the use, safeguarding or expenditure of the other three quarters (\$21.3 billion) of the funds, which are transferred to intermediary organizations or bodies providing services to the public (e.g. hospitals, universities, school boards).

In Section 2.2 of our 1988 Report, we reported on the various phases through which improvements in the accountability for transfer payments had progressed. The purpose of this year's section is to provide an informational update only.

##### *PROGRESS IN IMPLEMENTING ACCOUNTABILITY FRAMEWORKS*

A Directive on Transfer Payment Accountability had been approved by Cabinet in May 1988. To assist ministries in implementing the Directive, Management Board Secretariat co-ordinated the preparation of a companion Guideline. The Guideline was finalized and circulated to Deputy Ministers in October 1988, along with a request that the ministries develop a proposed accountability framework for each transfer payment program.

Most frameworks have been submitted and have been reviewed, or are in the process of being reviewed, by the Secretariat. It is anticipated that all submissions would be received, and reviews and discussions with the ministries completed, during the next few months.

The content of the submissions covered the key components of accountability frameworks, that is setting expectations (objectives and results), contracting (the understanding between the ministry and the transfer payment recipient), and reporting. The submissions also indicated what improvements had been planned for current ministry practices relating to the management of transfer payment programs. While awaiting final Cabinet approval of their submissions, the ministries are proceeding to implement elements of their accountability frameworks.

## Comments on Government-wide Matters and Special Reviews

To facilitate the submission of the evaluated accountability frameworks to the Cabinet for approval, the Secretariat has prioritized the presentation of the frameworks. The first presentation scheduled for the latter part of 1989 is to address 21 of the largest transfer payment programs, representing approximately 80 per cent of total Provincial transfer payments. Included in this group of transfer payments are hospitals, health benefits, schools, universities, family benefits, and municipal grants and subsidies. It is intended that all accountability frameworks will have been submitted to Cabinet for their consideration before March 31, 1990.

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### COMMENTARY

Through our ongoing audit activities, we will assess the extent to which these accountability frameworks are in place and how well they are operating.

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#### 2.3 Reform of the Estimates Review Process

Our 1987 and 1988 Reports (Sections 2.2 and 2.3 respectively) summarized deficiencies in the Estimates review process and the recommendations for improvement expressed by various Ontario legislative committees since 1980.

On July 25, 1989, the Legislature agreed to a Government motion to amend the Standing Orders of the Legislative Assembly (rules of the House) which resulted in, among other things, the reform of the Estimates review process.

Revisions of the Standing Orders pertaining to the reform of the Estimates process include:

- the establishment of a Standing Committee on Estimates, to be chaired by a member of an opposition party, for the purpose of considering the Estimates of not fewer than six and not more than twelve ministries and offices annually.
- the Estimates to be considered are to be selected in two rounds by the Committee, with members of the Official Opposition party choosing first, the members of a recognized party having the third largest membership in the House choosing second, and the members of the party forming the Government choosing third. In each round, the members of each party may choose the Estimates of one or two ministries or offices to be considered.
- the time for the consideration of the Estimates of each ministry or office is to be determined by the members of the Committee who selected such Estimates. A total of not more than 15 hours is allocated to each round, for considering the Estimates of the one or two ministries or offices chosen for the round.
- all other Estimates not selected for consideration by the Committee are deemed to be passed by the Committee and are to be reported back to the House.

## Government Deficits

- the Committee is to present one report, with respect to all of the Estimates considered, no later than the third Thursday in November of each calendar year. If the Committee fails to report on time, the Estimates are deemed to be passed by the Committee, and are also deemed to be reported to and received by the House.
- the minister or person answerable for the Estimates considered by the Committee is to provide each member of the Committee and the Clerk of the Committee with advance briefing material, including such information as growth rates, interim expenditures for the previous fiscal year, and an explanation of the programmes and funding by particular item.
- a maximum of six hours is to be allotted for a debate in the House on the Orders for Concurrence in Supply for the ministries and offices whose Estimates were selected for consideration by the Committee.

The amended Standing Orders and the revised Estimates review process became effective on October 10, 1989. The new procedures for the review of the Estimates should provide for better legislative scrutiny of the Government's proposed spending plans.

### 2.4 Commentary on Government Deficits

#### INTRODUCTION

Government deficits are a topical issue today. They receive a great deal of media coverage, especially at the federal level. At both the federal and provincial levels, the need to control the deficit has been increasingly cited as one of the reasons for tax increases.

#### DEFINITION

Simply put, a government's deficit represents its excess of expenditure over revenue in any given year. A government's accumulated deficit equals the total of annual deficits, less surpluses.

For the year ended March 31, 1989, Ontario's deficit was \$1.5 billion, and its accumulated deficit was \$35.5 billion.

When government expenditures continue to exceed revenue, cash balances are drawn down and borrowing is required. All such borrowing constitutes a government's total debt. In Ontario, this debt amounted to \$39.0 billion as at March 31, 1989. Interest on this debt totalled \$4.0 billion for the year ended March 31, 1989.

#### PROS AND CONS

There are two schools of thought regarding the advisability of governments accumulating deficits. Those opposed argue:

## Comments on Government-wide Matters and Special Reviews

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- Deficits encourage inflation and higher interest rates. The large sums borrowed to finance deficits tend in themselves to put upward pressure on both interest rates and inflation.
- Deficits make governments vulnerable in times of recession. Continuing deficits, along with rising debt levels and expenditure growth, increase government exposure to financial risks in the event of an economic slowdown.
- Deficits mean mortgaging our future. Through increasing debt obligations, deficits sentence governments and taxpayers to an indefinite future of tax increases and/or service cuts.
- Excessive debt drains government resources, preventing the development of new initiatives. An increasing percentage of government expenditure is devoted to interest charges on borrowings.

While deficit accumulation has its detractors, there are others who maintain:

- There is no statistical evidence to link government borrowing and deficits with inflation or higher interest rates.
- Deficits are a tool for creating jobs and stimulating the economy. Without the level of government spending experienced in the 1980s, there would be a recession.
- Deficits, rather than mortgaging our future, are paying for future benefits. Deficits include expenditures for capital purposes, e.g. hospitals, schools, highways, etc.
- Deficits are largely money we owe to ourselves. Government debt, to a large extent, is money which governments are repaying to their own citizens.

In summary, there are divergent views on the desirability of deficits and accumulated deficits. However, there is general agreement on the need for governments to carefully monitor and control any deficit situation. Governments should, for example, be concerned that the growth in the accumulated deficit does not outpace the growth in the economy.

Such a situation would lead to greater borrowing by government, and over time, to a considerably higher debt level. This would necessitate an ever increasing percentage of a government's revenues to be earmarked for debt carrying charges (interest), thus making it more difficult to maintain existing levels of service or introduce new spending programs.

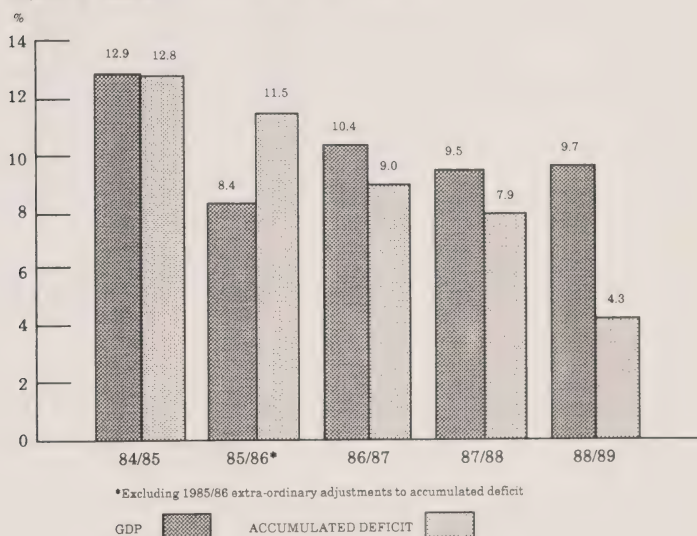
A personal corollary may be made here. If an individual's economic growth (i.e. increase in income) does not keep pace with the growth of his/her debt, then the debt becomes increasingly difficult to manage.

## Government Deficits

A prime measure of economic growth is the gross domestic product (GDP), which represents the value of all goods and services produced in a year. The following graph compares the percentage change in Ontario's GDP to the percentage change in Ontario's accumulated deficit for the past five years.

As is evident from the graph, Ontario's recent economic growth is exceeding the growth of the accumulated deficit.

**COMPARATIVE GROWTH  
ONTARIO GDP AND ACCUMULATED DEFICIT  
1984/85 to 1988/89**

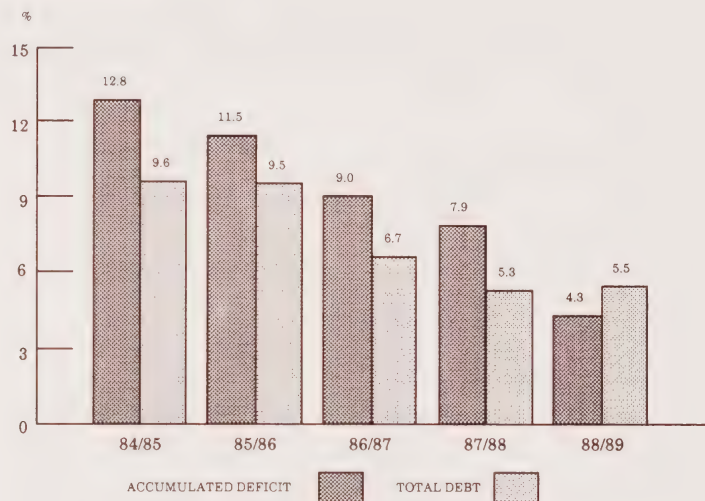


### OTHER INDICATORS

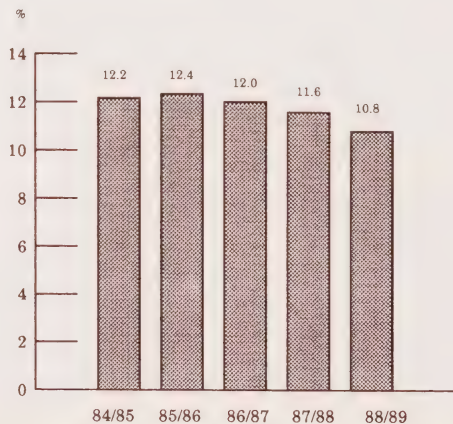
There are other indications that Ontario is endeavouring to effectively manage its deficit position. While its accumulated deficit, and therefore its total debt, has been increasing for many years, the actual rate of increase is on a downward trend. The proportion of provincial revenue required to pay the interest charges on the outstanding debt is also decreasing. These trends are illustrated by the following graphs.

## Comments on Government-wide Matters and Special Reviews

**RATE OF INCREASE  
ACCUMULATED DEFICIT AND TOTAL DEBT  
1984/85 to 1988/89**



**DEBT INTEREST AS A  
PERCENT OF REVENUE  
1984/85 to 1988/89**



## Government Consulting Services

### *CREDIT RATING*

Based on detailed analyses of financial and economic information, bond rating agencies in Canada and the United States develop bond rating scales for securities issued by various governments. The ratings vary from triple A for highly-rated investments to D for investments rated as low quality. A significant drop in rating will lead to an increase in the interest rate at which money may be borrowed.

These agencies have historically given Ontario very high ratings, usually triple A.

### **2.5 Observations on the Purchasing of Government Consulting Services**

Management, information technology and technical consulting services acquired in the 1989 fiscal year by Ontario Government ministries amounted to \$165 million.

### **SUMMARY**

#### **SCOPE AND OBJECTIVE**

Our objective was to assess, on a cross-ministry basis, whether government policies and procedures relating to the acquisition of consulting services were being followed.

To achieve our objective, we reviewed consulting assignments at nine ministries, namely, Colleges and Universities, Community and Social Services, Education, the Environment, Government Services, Housing, Natural Resources, Revenue, and Transportation. These Ministries accounted for approximately 65 per cent of the \$165 million in expenditures.

Our testing was based on a representative sample of consulting assignments. However, where we noted deficiencies, we extended our tests to enable us to conclude on the significance of our findings.

#### **CONCLUSION AND FINDINGS**

##### *COMPETITIVE PURCHASING OF CONSULTING SERVICES*

For the most part, ministries were following government policies and procedures for purchasing consulting services. However, instances were noted where ministries went through the motions of competitively tendering for assignments, but the process was really not open or fair to all bidders.

##### *RELATED MATTER*

Continued reliance on consultants is uneconomical.

## Comments on Government-wide Matters and Special Reviews

### BACKGROUND

Procedures relating to the purchase of consulting services are detailed in each ministry's policies and procedures manual. These are in addition to the minimum Government requirements for "Consulting Services" in Management Board's Directives and Guidelines.

The key principles in the Directive relating to the planning, purchasing and managing of consulting services are:

- Consulting services shall be acquired through a competitive process whenever possible with the objective of obtaining the best value for the funds to be expended.
- Consultants must be acquired in such a manner as to avoid any conflict of interest, not permit a vendor to gain a monopoly for a particular kind of work and not continuously rely on a particular outside organization.

### COMMENTARY

#### Overview

In cases where a ministry estimates the cost of an assignment to be \$25,000 or more, competitive acquisition procedures must be used. The procedures include a written request for proposals, written evaluation of proposals and written agreements.

The roster rotation method is used to select consultants normally without price competition. Price is negotiated subsequent to the selection of the consultant. This process requires Management Board approval and assumes buyer expertise, a recurring need for similar services, an up-to-date list of qualified vendors and well-defined ministry acquisition directives and procedures.

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#### COMPETITIVE PURCHASING OF CONSULTING SERVICES

**Based on our representative sample of consulting assignments, we concluded that ministries generally adhered to competitive acquisition policies and procedures. However, we noted several instances where ministries circumvented these policies and procedures. For example:**

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#### Unfair Competitive Selection Process - Ministry of the Environment

In our 1987 Annual Report, we questioned a \$940,000 U.S. consulting contract awarded without tender by the Ministry. This contract involved the development of a computer model, known as the Acid Deposition and Oxidant Model (ADOM) model, for predicting the long-range transport of air pollutants.

Since completing the development of the ADOM in 1986, the U.S. consultant has been awarded four additional contracts totalling \$456,000 U.S. to test the model.

The Ministry is a joint sponsor of the ADOM project, along with the Canadian Federal Government and organizations in the United States and West Germany. However, all costs related to these contracts are paid by the Ministry. The Canadian Federal Government provides data and computer time for the project.

## Government Consulting Services

Management informed us that two of the sponsors had insisted that all the assignments be awarded to the consultant who had developed the ADOM model. In a February 1986 letter discussing the ADOM plans over the next three years, the Director of the Air Resources Branch stated: **"It has been agreed that the same contractor will be retained to carry out this extra work"**. Nevertheless, the Ministry did go through the motions of competitively tendering the four contracts for testing the model.

**We questioned the rationale for obtaining competitive bids and the fairness of the process used since the chances of anyone else being awarded the contract were remote. For example:**

- For one contract, bids were received in early November 1987. The incumbent consultant's bid was \$142,000 U.S. while a bid of \$130,000 Canadian was received from an Ontario company. After reviewing some of the proposed work with the consultant and suggesting changes, the Ministry requested the consultant to submit a revised bid. This opportunity was not extended to the Ontario firm. On November 18, 1987, the consultant submitted a new bid for \$115,000 U.S., which still exceeded the \$130,000 Canadian. A contract was signed with the consultant on December 10, 1987 for work to be done between December 1, 1987 and March 31, 1988.

On January 5, 1988, after concerns were raised by the Ministry's purchasing department that the Ontario consultant had not been given the same opportunity to adjust its bid, the Air Resources Branch contacted the Ontario company. The company stated that it would now not be able to complete the assignment by the due date because two months had elapsed since the bid was submitted.

**In our opinion the bidders were not treated in a fair, equitable and responsible manner. This type of activity brings into question the credibility of the competitive bidding process.**

- For another contract totalling \$160,000 U.S., the purchase requisition prepared by the Ministry co-ordinator of the ADOM project in June 1988 requested that two scientists working on the model be awarded the contract without tender. The Air Resources Branch indicated that since the scientists were "necessary for the evaluation process and it cannot be obtained from any other consulting companies in Canada or the U.S., it is recommended that the above services be sole-sourced to the company for which these people work." **However, this sole-sourcing request was refused by the acting director of the Policy and Planning Branch and a request for proposals was sent out.**

**In our opinion, the detailed requirements were so restrictive that they could only realistically be met by the consultant who developed the ADOM model.** For example, the request for proposals stated that "a person familiar with the development and all the details of the ADOM computer code" was needed.

Although representatives from five firms attended a bidders meeting, only the U.S. consultant submitted a bid.

## Comments on Government-wide Matters and Special Reviews

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### Unequal Consideration of Bids - Ministry of Education

**In our review of consulting contracts we noted instances where all bidders' proposals were not given the same degree of consideration. For example:**

- A consultant at the Ministry was hired to develop a new Integrated Payroll Personnel System to be used in 35 school boards. The main contracts for this project totalled \$275,000 as follows:
  - \$169,000 original (Nov. 18/85 - Dec. 31/87)
  - \$ 70,000 follow-on (Jan. 1/88 - Sept. 30/88)
  - \$ 36,000 new contract (Sept. 1/88 - Dec. 31/88)

After the Ministry issued the \$70,000 follow-on contract, to have offered the consultant another follow-on contract for \$36,000 would have required Management Board approval since the total cost would have exceeded \$250,000. Instead the Ministry tendered for the last contract which covered completing the development of the payroll component and pilot testing the personnel component of the system.

The consultant who was already working on the assignment was awarded the contract although his bid was approximately \$1,900 higher than the other bidder interviewed. The report on the selection process indicated that the consultant "has the most relevant and recent experience in Payroll and Personnel development."

**In the \$70,000 follow-on agreement, the Ministry reasoned that the consultant was vital to ensure the continuity of system development. Therefore, it was highly unlikely that anyone else would have been awarded the new \$36,000 contract.** Accordingly, we felt that this contract should have been a follow-on agreement and not a new contract since the development work on the system was not yet complete.

- We reviewed 13 consulting contracts of the Information Technology and Systems Branch of the Ministry valued at over \$50,000 each. For the 1989 fiscal year, **12 of the 13 contracts were awarded to consultants who had worked for the Ministry continuously since at least 1986 as programmers or systems analysts.**

**Given this situation, one must question the competitiveness of the tendering process.**

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### Conflict of Interest - Ministry of Government Services

In 1986, the Ministry initiated the Metro Toronto Property Review study. Management wanted to hire a particular consultant because he had "many years of extensive experience in development planning" and his "professional experience with Government at several levels and his academic background makes him an ideal candidate for this project."

The consultant submitted a proposal to carry out the property review at a cost of \$90,000. This included fees for acting as the project director and for two

## Government Consulting Services

sub-consultants. However, in August 1986 the Ministry decided to tender for the actual assignment and engage this consultant at a cost of \$24,000 as a project co-ordinator. The project co-ordinator assisted in drafting the request for proposals and in selecting the consultant to do the study.

In September 1986, four bids for the study were received. **The project co-ordinator recommended two firms for consideration in the final selection process. We noted that subsequently, on October 1, 1986, the co-ordinator informed the project's steering committee of a conflict of interest involving the principals of a sub-contractor of one of the two final bidders.**

On October 21, 1986 the steering committee asked the project co-ordinator and the Manager of the Land Development Branch to interview the sub-contractors and make recommendations on the bids. On October 27, 1986 they recommended the firm with which the project co-ordinator had declared the conflict of interest. Although the firm's proposal was \$20,000 higher than that of the other final bidder, the firm was selected as its proposal more closely met the study's requirements. The contract was signed in December 1986 for \$130,000.

We recognize that the final decision for engaging the successful bidder was made by the steering committee. However, **in our opinion, due to the conflict of interest, the project co-ordinator should not have been involved in either the evaluation of the proposals or in recommending the consultant to be employed.**

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### *ROSTER ROTATION METHOD OF SELECTING CONSULTANTS*

Of the ministries we reviewed, only some areas of the Ministries of the Environment, Government Services, Natural Resources and Transportation were authorized by Management Board to use the roster rotation method. **We were satisfied that the roster rotation method at these Ministries was properly used and that all consultants were given an equal opportunity to obtain contracts.**

We also noted that the Ministry of Government Services had undertaken an initiative whereby competitive bids, including price, would be used in selecting architectural consultants for major capital projects valued at over \$400,000. Previously, all architectural consultants were selected using the roster rotation method. This initiative was approved in principle by Management Board on May 9, 1989. The Ministry is required to submit an interim evaluation of this process to Management Board by June 30, 1990.

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### *RELATED MATTER*

#### **Continued Reliance on Consultants Costly**

**Although Government Directives discourage continuous reliance on consultants, annual expenditures for consulting services have increased from \$86 million in 1985 to \$165 million in 1989. In most instances, continued reliance on consultants is uneconomical and could permit a vendor to gain a monopoly on a particular kind of work.**

## Comments on Government-wide Matters and Special Reviews

For example, during our audit of the Ministry of Education we noted that the Information Technology and Systems Branch and the School Board Services Unit have employed consultants on a continuous basis. We were informed that this is primarily due to a shortage of professionals willing to take employment and to budget shortages in the salaries account.

In the School Board Services Unit, 19 consultants have worked for periods ranging from two to ten years. The contracts were for one year and were generally renewed at the end of the term. **The cost of these consultants was approximately 70 per cent higher than salaries earned by employees occupying comparable positions within the Ministry.** For example, one consultant received a two-year contract for \$170,000 to be a project leader.

Another consultant received a five month contract for \$67,000 to be a project officer. In both cases, annual salaries for similar staff positions averaged \$48,000 plus benefits.

We recommended that the Government review its increasing reliance on consulting arrangements. In some cases it may be advisable for the Government to hire additional staff to meet its needs.

### RESPONSES

The Secretary of the Management Board of Cabinet commented generally on our report, and also provided Ministry responses to the specific matters raised.

### GENERAL COMMENTS

*"I am pleased that generally you found ministries were following the government policies for purchasing consulting services. In particular, I note you were satisfied that the ministries approved by the Management Board of Cabinet to use the roster rotation method of acquisition were using it properly and that all consultants were given an equal opportunity to obtain contracts.*

*"Staff of the Secretariat have been working closely with ministries to ensure that the principles spelled out in the policy are evident in their administrative procedures as well as their practices. As you are aware, ministries must report annually to Management Board on their ability to effectively manage the process of planning, acquiring and managing consulting services. The 1988/89 fiscal year's reports are currently being analyzed prior to presentation to the Board in early October. At that time ministry concerns with policy and any Secretariat concerns with the overall administration of the policy will be raised for discussion with Management Board.*

*"I also have taken the opportunity to share the findings in your report with all deputy ministers and requested that any weaknesses be addressed and appropriate controls be put in place."*

## Government Consulting Services

### COMPETITIVE PURCHASING OF CONSULTING SERVICES

#### **Unfair Competitive Selection Process – Ministry of the Environment**

*"As stated in the Provincial Auditor's 1987 annual report, the Ministry revised its internal purchasing procedures to ensure that goods and services are awarded in accordance with Management Board of Cabinet Directives and Guidelines. Therefore, compliance with the competitive bidding process is a high priority.*

*"In the case of the ADOM model which is complex and has international ramifications, the program branch had a very strong case for sole-sourcing the contracts mentioned in this report. However, an administrative decision was made to comply strictly with government directives.*

*"Due to the complexity of the model, expertise in this area is very limited; nevertheless, the Ministry is gradually exposing consultants, other than the U.S. consultant, to the model by tendering work of a less complex nature. This practise will continue.*

*"To date, contracts have been awarded to other consultants, including the unsuccessful bidders for the development of meteorological and emission data fields. These contracts are for input to the ADOM and for scientific support in the evaluation of the ADOM.*

*"Contrary to the audit observation, the Ministry did not change any of the specifications of the assignment but merely requested a price quotation from the U.S. consultant restricted to the workscope specified in the Request For Proposal (RFP). The U.S. consultant had provided a price quotation on a workscope which exceeded the RFP specifications. Also, with regard to costs, all parties provide staff time and resources to the project. In particular, Environment Canada provided the input meteorological data and CRAY computer time with a commercial value of \$100,000 for this project."*

#### **Unequal Consideration of Bids – Ministry of Education**

*"In hindsight the \$36,000 contract which was tendered perhaps should have been treated as a follow-on agreement. School Board Services Unit had planned to have this project manager position filled with a complement staff by September 1, 1988 but School Board Services Unit was unsuccessful in filling this position by that time and needed to obtain a skilled and experienced project manager on relatively short notice.*

*"School Board Services Unit believed that it would take considerably longer to obtain Management Board approval for a contract follow-on than to tender for a new contract and therefore the tendering route was undertaken. Effective January 1, 1989, this position was filled by a complement staff."*

#### **Conflict of Interest – Ministry of Government Services**

*(The conflict of interest) . . . "consisted of holding an interim mortgage in a development in which an employee of the sub-consulting firm was involved.*

## Comments on Government-wide Matters and Special Reviews

The Auditor's report states that the conflict was declared after the evaluation of proposals was received. . . . *"In fact the declaration was submitted concurrently with the report on the preliminary review of the bids received.*

*"The project co-ordinator was not aware of any conflicts prior to the Ministry receiving the bids as part of the competitive process. In addition, it should be noted that although the preliminary review team consisting of the project co-ordinator and a senior Ministry manager made recommendations regarding the two proposals which met the study requirements, the responsibility for final selection rested with an inter-ministerial steering committee representing six ministries. The committee made its selection based on interviews, assessment of professional credentials and the firms' capacity to undertake the work.*

*"... the Auditor's report states that '... The project co-ordinator recommended two firms for consideration.' The Ministry only received four proposals out of the eleven candidates invited to submit, and two were rejected immediately since they did not meet the Ministry's minimum criteria. There were only two bids left for the steering committee to consider."*

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### RELATED MATTER

#### Continued Reliance on Consultants Costly

*"All of the Provincial Auditor's examples and consulting assignments cited relate to the use of systems consultants in two branches of the ministry (of Education) as an alternative to classified employment. This practice began many years ago when systems consultants were in high demand and could not be attracted through normal recruitment processes. The practice, once established, became difficult to reverse because of expertise built up in consulting staff and because salary budgets are limited.*

*"However in 1987 the ministry began making concerted efforts to eliminate the practice with the result that the Information and Technology Branch has converted 33 positions from consulting contracts to employment and will close the last 3 of these consulting relationships during 1989-90. The School Board Services Unit has converted 24 consultant contracts to employment and will complete the conversion of the remaining 5 by March 31, 1990.*

*"The professionals hired under this practice were consultants, but their assignments and contract terms had many similarities to employment. This made compliance to the Management Board directive very difficult. The ministry recognized the perception of unfair access and inappropriate continued reliance on consultants and began the phase-out process."*

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## 2.6

### Observations on Government Overtime Payments

In 1988/89, Ontario Government ministries incurred over \$81 million in overtime payments. Overtime payments represented approximately 2.5 per cent of salaries and wages for the Province.

## Government Overtime Payments

### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit objectives were to determine on a cross-ministry basis, whether overtime:

- . was incurred only when necessary; and
- . was the most economical means of completing the work.

We reviewed overtime payments at five ministries - Correctional Services, Health, Natural Resources, Solicitor General and Transportation. These Ministries accounted for 65 per cent of the \$81 million in payments.

#### CONCLUSIONS AND FINDINGS

**For the most part, overtime was incurred only when necessary. Employees worked overtime in order to perform the work of individuals absent due to illness, or to handle additional work which was not predictable or avoidable.**

**Overtime was generally the most economical means of completing the work. However, in some cases, hiring additional staff would reduce overtime and result in savings to the Ministries.**

### BACKGROUND

Overtime is incurred when eligible ministry employees work more than their regular working hours. Compensation for overtime can take the form of either payment or "time off in lieu." Overtime payments are normally made at one and one-half times the employee's basic hourly rate. Time off in lieu is compensating time off rather than payment for overtime worked. Our audit focused on overtime payments.

### COMMENTARY

#### NECESSITY OF OVERTIME

**For the most part, overtime was incurred only when necessary.**

#### Ministry of Health

##### *Psychiatric Hospital Nursing Services*

We audited overtime expenditures at one of the Ministry's psychiatric hospitals. The hospital incurred 24,000 hours of overtime. The cost of this overtime was approximately \$560,000, the equivalent of 14 full-time positions.

Hospital employees often work overtime to perform the work of staff absent due to illness. Without this overtime, the facility would not be able to maintain a minimum level of service.

In 1988, Government employees took an average of 9.5 sick days. However, at the psychiatric hospital, the average number of sick days was 13.

## Comments on Government-wide Matters and Special Reviews

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**Reducing absenteeism could result in significant savings to the Hospital. For example, if the number of sick days decreased to the provincial average of 9.5, overtime savings would be approximately \$135,000 per year.** Therefore, we recommended that an attendance improvement program be instituted to reduce absenteeism.

### *Emergency Ambulance Services*

Nine of the Province's 190 emergency ambulance services are operated by the Ministry of Health. The remainder are privately operated.

We reviewed two Ministry-operated ambulance services which incurred \$562,000 in overtime costs for the year ended March 31, 1989.

The emergency ambulance service has the highest number of person days lost to sickness and employee injuries in the Ministry. For the two ambulance services reviewed, work days lost to sickness and injury averaged 20 days per employee per year.

In order to maintain a minimum level of service, absent employees must be replaced. **Approximately 30 per cent of overtime was incurred due to sickness or injury. Reducing such absences would result in significant savings to the Ministry.**

This has been recognized by the Ministry. A December 1988 report, prepared by the Ambulance Services Branch, stated that one of the main reasons for the ongoing over-expenditure in salaries and wages at year-end was the "costs of paid absence replacements for areas such as training, sick time and workers compensation replacement." The report recommended an increased management awareness of attendance review programs.

**At the time of our audit, overtime incurred to compensate for sick or injured staff had been reduced approximately 80 per cent over the prior year. In part, this reduction was attributable to a new corporate policy.** Absent classified staff are to be replaced either by part-time staff at the regular rate or by the allocation of work to neighbouring privately-operated ambulance services.

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### **Ministry of the Solicitor General**

\$13.2 million, over 95 per cent of the Ministry's total overtime expenditure, was incurred by the Ontario Provincial Police (O.P.P.). This represents approximately five per cent of the O.P.P.'s total payroll.

**Given the nature of police work, overtime is unavoidable.** For example:

- . In areas such as surveillance and narcotic investigations, continuity beyond a regular eight hour work day is often essential.
- . Officers attend court as witnesses. Since the court appearance may not occur during an officer's regular shift, payment is made on an overtime basis.

## Government Overtime Payments

- In cases where an officer is absent, the replacement must be another full-time officer since there are no part-time or contract police officers.

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### REGARD FOR ECONOMY

**Overtime was generally the most economical way to meet needs, considering available staff resources. However, there are opportunities for reductions in overtime expenditures. This would usually require the hiring of additional staff.**

Overtime is paid at time and one-half. As a result, payment of regular or part-time staff at straight time would cost only 66 per cent as much as overtime.

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### Ministry of Health

The psychiatric hospital we audited had requested approval to add 6 full-time and 24 part-time nurses. The hospital indicated that hiring the nurses would lead to a significant reduction in overtime, thus making more effective use of nursing funds. The request was not approved by the Ministry who stated that it would be reconsidered as funds became available.

**Assuming all overtime hours could be performed by additional staff working at regular rates, the savings to this hospital would be approximately \$180,000 per year, minus additional fringe benefits.**

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### Ministry of Correctional Services

Overtime is primarily incurred in provincial detention centres. Absent correctional officers normally have to be replaced to maintain a minimum level of service and security.

A "Staff Review" report, prepared for one correctional institution in January 1989, indicated that it had been the practice to apportion work caused by absent staff between regular staff on overtime and unclassified staff. However, in the month prior to the report, absent staff were replaced primarily by unclassified staff at regular rates. The report noted that this resulted in a reduction of \$25,000 in salary expenditures for the month in that institution alone.

**If 50 per cent of overtime was replaced by work at regular rates, total savings to the Ministry would be approximately \$2 million per year, minus fringe benefits.**

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### RESPONSE

The foregoing comments were included in a report dated August 30, 1989. Consequently, the Management Board Secretariat has not had an opportunity to formally respond.

## Comments on Government-wide Matters and Special Reviews

### 2.7

#### Observations on Government Travel Expenditures

Total travel expenditures were \$95.2 million for the 1988 fiscal year. Approximately 75 per cent of that amount was incurred by 12 ministries: Agriculture and Food, Attorney General, Citizenship, Community and Social Services, Correctional Services, Culture and Communications, Environment, Labour, Natural Resources, Revenue, Solicitor General, and Transportation.

#### SUMMARY

#### SCOPE AND OBJECTIVE

We examined travel claims made by employees of twelve ministries to assess whether Government policies and procedures related to travel expenses were followed.

#### CONCLUSION AND FINDINGS

Overall, Government policies and procedures for travel expenses were satisfactorily followed. At three Ministries (Agriculture and Food, Revenue and Transportation), adherence to policies and procedures was strong. This was primarily due to well-established internal review procedures.

There is no reason why all ministries should not be achieving this level of compliance. At the other nine Ministries, there were numerous examples where employees disregarded the policies and procedures, particularly those related to transportation and accommodation. The most significant of these were not selecting the most economical mode of transportation and not minimizing costs.

To a great extent, these compliance problems were due to a lack of proper scrutiny by individuals approving claims. Ministries should more closely monitor employee expenses to minimize any abuses.

We found many examples where:

- . The most economical mode of transportation was not selected.
- . Full-size luxury cars were rented.
- . More expensive hotels were booked.
- . Questionable expenses, including personal items, were reimbursed.
- . Ministers were reimbursed for expenses which would not normally be paid to other employees under existing Government guidelines.

Although the amounts involved in the examples cited may seem small, these individual instances represent common inadequacies. Collectively, then, these findings are significant and demonstrate a lack of respect for taxpayers' funds.

## Government Travel Expenditures

### BACKGROUND

Principles and mandatory requirements are contained in the Management Board's Directives and Guidelines (Travel, Meal, Hospitality and Membership Fee Expenses). The key principles for employee expenses are that:

- expenses associated with the performance of duties as an employee should minimize cost and maximize the benefits to the organization; and
- the most practical and economical arrangements for travel, meals, accommodation, hospitality and membership fees must be made.

### COMMENTARY

#### *UNCLEAR RESPONSIBILITY FOR TRAVEL EXPENSES*

The primary responsibility for ensuring that expenses claimed are in accordance with Government policies and procedures rests with the employee. However, reimbursement can only be made upon proper approval by the claimant's supervisor.

All travel expense claims we reviewed were signed by the claimant's supervisor. However, in many instances, **Government guidelines with respect to legitimate work-related expenses were not followed, yet no explanations were provided.** Furthermore, **there was an absence of several basic controls required to ensure due regard for economy, such as scrutinizing claims and supporting documentation before reimbursement.** In particular, six Ministries stated that, as long as the claim was properly approved, the accounts branch, which processes the claims, would not normally question any travel expenses claimed.

This indicates that the approver was assigned the responsibility of checking claims. In light of the number of errors found, this responsibility had either not been conveyed or, if it had, it was not taken seriously.

#### *TRANSPORTATION*

##### **Uneconomical Air Travel**

**We noted many cases in which uneconomical air travel arrangements were made and no explanations were provided.**

For example:

- At Environment, four employees travelled to the same conference in Sweden. Airfares paid for the four employees were approximately \$1,300, \$1,900, \$2,000 and \$2,900, respectively. The highest fare was for an executive class ticket, while the others were economy class.

The Ministry advised that the Office of the Premier did not approve the travel until ten days before departure. Therefore, staff could not take advantage of special fares available for booking more than 21 days ahead. However, the employee who paid the lowest fare, booked 23 days in advance. Furthermore, the most expensive ticket cost \$1,000 more than the other two booked the same week.

## Comments on Government-wide Matters and Special Reviews

In total, the approval delay and a lack of co-ordination in booking tickets resulted in additional costs of \$2,900.

- In three cases, employees incurred significantly higher costs by flying executive, not economy, class.

One case involved an employee of the Attorney General who flew executive class to Vancouver at a cost of \$1,100 when the regular economy fare on that flight was \$850.

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### Excessive Automobile Rental Costs

When renting cars, employees are required to use the list of approved vendors in the "Car Rental Directory" issued by the Ministry of Government Services. These vendors offer discounts.

The Directory states that "every effort should be made to use the least expensive car rental agency in each location" and that "sub-compact and compact cars should be used wherever possible."

We noted numerous instances where:

- **employees did not obtain the Government rate;**
- **vehicles were not rented from the least expensive agency; and**
- **luxury vehicles, such as Cadillacs, Lincoln Continentals and Fifth Avenues, were rented instead of sub-compact or compact cars.**

The most significant of these infractions was the rental of luxury cars, which cost between \$42 and \$60 per day. A compact car could have been rented for an average of \$30 per day. For example:

- At the Ministry of Correctional Services, an employee rented a Buick LeSabre for 16 days at a total cost of over \$700, when a compact car would have cost only \$400. In another instance, an employee paid over \$250 to rent a Cadillac Sedan deVille for 6 days instead of \$180 for a compact car.
- At the Ministry of the Attorney General, a number of members of the Ontario Municipal Board rented cars which cost significantly more than compact cars. One member paid \$60 and \$0.16 a kilometre, for a total cost of almost \$100, to rent a car for one day.

Another member rented a van for 5 days at a cost of \$50 per day. According to rates negotiated by the Ministry of Government Services, a full-size sedan would have only cost \$30 per day with no charge for kilometres driven.

Subsequent to our audit, the Deputy Attorney General decided that Ontario Municipal Board members are no longer required to abide by the Directive that the rental of automobiles be confined to compact vehicles. The waiver was given because:

## Government Travel Expenditures

"so much of the Board's activity involves driving to hearing locations in all parts of the province and in all kinds of weather, and having regard also to the necessity for the members to arrive at scheduled hearings on time."

As well, the Deputy stated that members "should act under the waiver with some regard to the spirit and intent of the Directive."

The Directory also states that vehicles "should be returned to the agency by the renter with a full tank of gas." This is primarily because rental agencies charge significantly more for fuel than gas stations.

We found that this was not consistently followed. For example, members of the Ontario Municipal Board frequently pay for refueling at the rental agencies. We extended our testing to 229 invoices and found that 174 had refueling charges which ranged from \$0.65 to \$0.71 per litre, while gas stations were charging approximately \$0.47. The extra cost to the Ministry of the Attorney General amounted to \$900.

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### ACCOMMODATION

#### Higher Cost Hotels Used

Management Board of Cabinet Directives state that when travelling on Government business, where practical, employees must use approved establishments listed in the "Hotel/Motel Directory," published by the Ministry of Government Services.

The 1988 Directory has two sections. The preferred section lists hotels with acceptable business rates and the supplementary section lists hotels with discounted rates which exceed the maximum in the preferred section. Hotels in the supplementary section should only be used when appropriate accommodation is not available at hotels listed in the preferred section.

In many cases, employees selected hotels listed in the supplementary section. **Some employees were incurring costs ranging from approximately \$100 to \$150 per night when hotels in the preferred section would have cost a maximum of \$70.**

In addition, **some employees paid more than the Government rate listed in the Directory.** For example, on 18 occasions Attorney General employees stayed at a hotel in North Bay and paid \$100 a night when the Government rate was \$55 a night. The extra cost totalled over \$750.

We note that the 1989 Directory has combined the two sections into one. In our opinion, having a preferred section encouraged employees to minimize costs.

Prudence was also not exercised at hotels out of the country. For example:

- Two employees of the Ministry of Culture and Communications attended the same conference in San Francisco. One paid approximately \$100 a night while the other paid about \$150 a night to stay at another hotel. This cost the Ministry an extra \$375.

## Comments on Government-wide Matters and Special Reviews

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- . Five employees of the Ontario Film Development Corporation attended two conferences at the same hotel in Los Angeles. Two of the employees stayed at a hotel for \$175 a night, while the other three stayed at another hotel for over \$250 a night. The additional cost to the Ministry of Culture and Communications amounted to \$1,700.
- . One Natural Resources employee attended a conference in Boston and charged \$250 a night for three nights. The conference was not held at the hotel where the employee stayed.

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### *RELATED MATTERS*

#### **Travel Expenses Reimbursed without Proper Receipts**

A basic control procedure for employee expenses includes ensuring that receipts are included with the expense claim, wherever possible. We noted that many reimbursements were made without a receipt. For example:

- . One employee (Culture and Communications) was reimbursed over \$500 for seminar fees.
- . One employee (Transportation) was reimbursed almost \$270 for 11 parking and 7 limousine charges.

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#### **Questionable Travel Expenses**

**There were numerous examples of questionable expenses being reimbursed through travel claims.**

- . An Environment employee, who combined a vacation with business travel in Europe, charged the Ministry for some vacation costs. The total overcharge of \$400 included additional airfare, meals and accommodation.
- . An employee of the Solicitor General claimed \$950 for personal clothing. As a uniformed firefighter, who was seconded to the Ministry, this purchase was authorized because the employee was required to wear civilian clothes while working for the Ministry.
- . One employee of the Ministry of Agriculture and Food overcharged approximately \$350 on travel claims between April 25, 1987 and March 10, 1988. This occurred when expenses incurred in United States dollars were converted to the Canadian dollar equivalent at rates higher than the actual rates.

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#### **Questionable Travel Expenses Claimed by Ministers**

Ministers' travel expenses are not covered by Management Board Directives. However, the "Ministers' Handbook", prepared by Cabinet Office, provides basic information to ministers.

## Government Travel Expenditures

The Handbook only requires ministers to disclose expenses under two headings: "travel expenses" and "other expenses." The former is to include expenditures for transportation, meals and accommodation, while the latter includes any other expenses. Further details relating to the "other expenses" category may be provided at the discretion of the minister. In our opinion, further clarification is required as to what types of expenses are permitted for ministers. Ministers are not required to submit receipts with their request for reimbursement.

It should be noted that three other provincial governments we contacted (Quebec, British Columbia and Nova Scotia) all had specific policies for ministers in their directives. In those provinces, ministers are to follow the same rules as government employees.

We noted numerous examples where **ministers were reimbursed for expenses which would not be permitted for other employees under the existing Management Board Directives.** Specifically:

- . \$6,300 for a staff Christmas party;
- . \$3,700 for a retirement dinner;
- . \$1,100 for annual membership fees to a social club;
- . \$200 for a reception for an employee of a minister's office to mark a 25th anniversary with the Ontario Government; and
- . several claims by a minister, totalling \$425, for dry cleaning. The service was incurred in Toronto by a minister resident in the Toronto area and not while on extended travel status.

### RESPONSES

The Ministries generally accepted the recommendations and indicated that corrective actions were either planned or had already been taken.

The following are some extracts from responses received:

#### UNCLEAR RESPONSIBILITY FOR TRAVEL EXPENSES

##### **Management Board of Cabinet**

*"Working in close co-operation with ministries through the Committee on Employee Expenses, issues in this area are addressed and discussed on an ongoing basis. As well, the Secretariat provides training sessions for ministries with respect to all of the areas addressed in the directives and guidelines. Recent training has occurred with ministries, focusing on employee travel expenses. As a further support to ministries, the guideline on travel is currently being amended to include some further suggestions for ministries to consider in their development of controls and accountability for ensuring that expense claims are properly reviewed and approved."*

## Comments on Government-wide Matters and Special Reviews

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### TRANSPORTATION

#### **Uneconomical Air Travel**

##### *Ministry of the Environment*

*"The Ministry acknowledged to the Provincial Auditor that improved planning and co-ordination is required in order to eliminate future occurrences of this nature. The fact that three out of the four employees were located in different Branches and used three different travel agents resulted in dissimilar travel bookings. It is now obvious that inconsistent information was provided by the travel agents on the most economical rates, routes and available class of fares.*

*"The Ministry has taken a number of steps to avoid similar situations from arising in the future:*

- (a) Specific instructions have been given to senior staff to be more diligent when authorizing and approving air travel and to ensure that the most economical air fares are obtained.*
- (b) In line with Central Agency policy, the Ministry has tendered for a centralized Ministry travel service."*

##### *Ministry of the Attorney General*

*"... our Ministry had committed a speaker to attend the Young Offenders Conference in Vancouver ... the designated speaker was unable to attend. It was necessary that his substitute take a business class flight on short notice."*

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#### **Excessive Automobile Rental Costs**

##### *Ministry of Correctional Services*

*"Following the audit review, a memo was sent to all ministry managers re-emphasizing the government policy with respect to the renting of vehicles, and this situation will continue to be monitored."*

##### *Ministry of the Attorney General*

*"... the member had requested a mid-size car. Unfortunately, the only car available was a full-size Caprice which he took in order to meet his hearing schedule.*

*"The member who rented the van was travelling during a winter weather advisory in Muskoka. The only vehicle with snow tires available from the agency was a van.*

*"Board Members ... have occasionally not followed 'the fill-up' directive. They have been advised to do so in future."*

## Government Travel Expenditures

### ACCOMMODATION

#### **Higher Cost Hotels Used**

##### *Ministry of Culture and Communications*

*"The employee who paid \$152.00 a night had originally booked a room at \$100.00 a night. On arrival at the hotel he was advised that there were no rooms available at that price. He then had the choice of accepting what was available at the hotel or start looking elsewhere. Because of the time of year and the lack of knowledge as to what might be available, he accepted the room at the hotel. The costs was \$152.00 a night. The ministry believes that this is a reasonable explanation. However, the ministry now centralizes bookings through (a travel agent), and this will provide more documentary evidence and better control in the future.*

*"As described under the item 'Uneconomical use of Rented Automobiles', the decision for the head and the senior marketing consultant of the Location Promotion and Services program to attend Location Expo was made months in advance and accommodation was secured in the hotel where the trade show was taking place as in previous years. Meetings were not held in these rooms as staff worked the OFDC booth during the day. When the decision was made to establish a Sales and Distribution presence at the American Film Market (an entirely different conference) and for the acting CEO to attend both trade shows, hotel rooms were scarce. More importantly, because of the nature of this conference, a quiet location was needed for business meetings/dinners with potential co-venture partners and distribution companies. The hotel was chosen because of its reputation as a spot for meetings with U.S. film producers. Funds were saved by not paying the exorbitant rates for meeting rooms as the suites have a meeting room."*

##### *Ministry of Natural Resources*

*"This accommodation was the only available alternate accommodation offered by the World DEC conference organizers. The only other accommodation offered to our employee was in the luxury ocean liner Queen Elizabeth II which was brought in for the conference. The accommodation selected was more reasonably priced than the other conference accommodation available.*

*"The magnitude of this conference and other conferences in the city resulted in an extreme shortage of alternate accommodation being available. Under the circumstances the decision was to accept the accommodation arranged for by the conference organizers."*

### RELATED MATTERS

#### **Travel Expenses Reimbursed without Proper Receipts**

##### *Ministry of Culture and Communications*

*"Because the original receipt had been misplaced, the claim for seminar fees was accepted by the approving officer because of knowledge of the purpose of the trip and because the attendant circumstances supported attendance at the seminar. However, a copy of the receipt has now been obtained.*

*"Staff have been advised that receipts or other supporting documentation, as required, must be attached to claims for reimbursement."*

## Comments on Government-wide Matters and Special Reviews

### *Ministry of Transportation*

*"We consider the problem to be an isolated incident, and have advised the one employee concerned to provide receipts in future."*

### **Questionable Travel Expenses**

#### *Ministry of the Environment*

*"The Ministry generally agrees with this finding, and has requested the employee to repay the inappropriate expense."*

#### *Ministry of the Solicitor General*

*"Municipal fire departments commonly reimburse uniformed fire fighters when required to wear civilian clothing. Further, it was this ministry's intention that this seconded be 'out of pocket' as a result of the secondment. Since the fire fighter would be lecturing as a representative of the ministry it was not considered appropriate that he wear the uniform of his municipal fire department."*

*"A parallel was also drawn with plain-clothes police officers who receive a clothing allowance."*

#### *Ministry of Agriculture and Food*

*"The one employee who overcharged for U.S. exchange rates on her travel claims by \$345 over 11 months has fully reimbursed the Ministry."*

### **Questionable Travel Expenses Claimed by Ministers**

#### *Office of the Premier*

*"As a result of our thorough review of the issues cited, and our shared concern about a lack of clarity in the guidelines, we have updated the Ministers' handbook to incorporate procedures similar to those followed by government employees."*

*"... we have recovered the monies related to personal expenses for membership fees to a social club and the claims for dry cleaning. We have taken appropriate action to reinforce the importance of adherence to expense procedures which have been clarified... to be more in line with the directives for other employees."*

## 2.8

### **Inspection Audit, University of Guelph, Ministry of Colleges and Universities**

The University of Guelph was incorporated in 1964 under the University of Guelph Act. The University employs 4,500 employees. Approximately 760 are faculty. They offer undergraduate and graduate programs to over 12,000 students.

The University received \$91 million in operating grants from the Ministry of Colleges and Universities during the 1989 fiscal year. Operating grants to all universities in the province totalled \$1.6 billion.

## Inspection Audit, University of Guelph

### SUMMARY

#### SCOPE AND OBJECTIVE

Our audit objective was to assess the adequacy of the University's accounting records and related procedures. Specifically, we examined whether:

- . enrolment data reported to the Ministry for funding purposes was accurate and complied with guidelines established by the Ministry and by the University;
- . assets acquired were properly controlled and accounted for;
- . controls over operating expenditures and payroll transactions including sabbaticals were adequate, and that such expenditures were made in accordance with the policies and procedures established by the Board of Governors.

By agreement with the University, our audit was restricted to expenditures funded by grants from the Ministry of Colleges and Universities. Accordingly, we excluded the agricultural research grants provided by the Ministry of Agriculture and Food. Also, any expenditures paid for through other funding sources such as federal grants, special donations or ancillary revenues (bookstore, student residences, etc.) were excluded.

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#### CONCLUSIONS AND FINDINGS

##### ENROLMENT REPORTING

**Improvements were required in enrolment reporting procedures. Many students were improperly reported, resulting in higher enrolment for funding purposes.**

##### PLANT ASSETS

**The University's position is that the costs involved in establishing an adequate system of control over plant assets exceed the possible losses that could occur from lost or stolen assets. Accordingly, there were few central controls governing the safeguarding of assets.**

##### PURCHASING AND PAYMENT PROCEDURES

**Generally, established purchasing and payment procedures were followed and reflected good business practices. However, we noted:**

- . A substantial contract to supply microcomputer equipment was questionably awarded.
- . No one had to approve the former president's personal and travel expense claims.

##### PAYROLL AND EMPLOYEE BENEFITS

**Although payroll and benefit transactions were well-controlled, we noted:**

- . At the end of his four and a half year contract in 1988, the outgoing president was given over \$100,000 to take early retirement, even though the University was under no obligation to renew his contract.

## Comments on Government-wide Matters and Special Reviews

- The incoming president's contract made provisions for substantial employee benefits.

### *SABBATICAL (STUDY/RESEARCH) LEAVE*

Controls over sabbatical leaves were unsatisfactory. Specifically:

- Employees on sabbatical leave often were not paid in accordance with pay rates established by University policy.
- Several employees did not comply with the policy on reporting the results of their study/research leave.

### COMMENTARY

#### *ENROLMENT REPORTING*

The allocation of operating grants to the various universities is based primarily on their reported enrolment figures. The higher the enrolment, generally speaking, the higher the operating grant.

Accordingly, a prime audit concern is the accuracy of the reported enrolment. Similar to our experience at the first university we audited, and reported on in our 1988 Annual Report, we found several inaccuracies in the computation of reported enrolment at the University of Guelph.

We outlined our findings in considerable detail in our report to the University, a copy of which was also sent to the Ministry. In essence we found:

- For over 10 years, the University had been reporting many students who were no longer attending the University.
- Many first year students were classified as upper years Honour students resulting in higher reported enrolment. Upper year Honours students generate 50 to 100 per cent more funding than do first year students.
- Differentiation between Honours and General Arts and Science students was open to wide interpretation and hence to inequities. Honours Arts and Science students generate 50 to 100 per cent more funding than do General students.

Both the University and the Ministry responded to these findings and their comments are summarized as follows:

- The University maintained that the Ministry had approved the reporting of certain students who were no longer attending, in recognition of Guelph's unique semester system. The Ministry advised that approval was granted for one year only, 1977, and that instructions had been issued to all universities in 1978 effectively prohibiting the practice. However, the Ministry felt that the University's action in continuing to report such students was the result of a legitimate misunderstanding and should not occur in future.

## Inspection Audit, University of Guelph

- . The University is addressing the misclassification of first year students and is developing a method of ensuring more precise classification of all first year students.
- . The University believes that the criteria it has established to differentiate Honours students from General students are appropriate. By allowing each University to establish its own criteria, however, the Ministry recognizes the difficulty of obtaining consistency across the whole community. Accordingly, the Ministry has referred the matter to the Ontario Council on University Affairs for advice and recommendations.

Both the University and the Ministry tended to downplay our findings since the errors identified during our audit represented only 1.9 per cent of reported enrolment. Under existing procedures an error rate of up to 2 per cent is considered tolerable.

Nevertheless, we are concerned. **Based on our university audit experience to date, errors and interpretations found in enrolment reporting most frequently result in reported enrolment exceeding actual enrolment. Therefore, these errors and interpretations are much more likely to generate overfunding than underfunding to a particular university.**

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### PLANT ASSETS

#### Poor Safeguarding of Assets

**The University had no central plant asset inventory listing to keep track of its furniture and equipment assets. These assets had a book value of \$78 million. We found that:**

- . With the exception of audio-visual equipment maintained by the Technical Operation Department, most assets were not identified as University property.
- . No annual or periodic physical count of furniture and equipment assets was taken, primarily because no listing of such assets had ever been prepared for control purposes.
- . A formal policy for loan of equipment to staff did not exist. Movement of assets was generally not documented.

The University advised us that once assets are acquired and assigned to a department, few central controls are maintained. In essence, each department is accountable for its assets. The University believes that this is more cost-effective than a centralized control process.

The University maintained that individual departments have sufficient incentive to protect their assets because each department is responsible for the first \$5,000 of loss or damage to assets. (This is the deductible portion under the University's insurance coverage.) We questioned whether this policy could be effectively monitored by Administration.

## Comments on Government-wide Matters and Special Reviews

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### *PURCHASING AND PAYMENT PROCEDURES*

#### **Good Purchasing and Payment Practices**

Purchasing expenditures for the year ended April 30, 1988 were \$38.4 million. Typical expenditures include computer equipment, scientific equipment and office furniture.

**We were generally satisfied that the University's purchases followed approved policies and good payment practices.** For example:

- . Purchase requisitions were properly prepared and authorized by the University departments.
- . Items were ordered through the purchasing department to ensure good buying practices.
- . Invoices presented for payment bore evidence of receipt of goods, were matched to applicable orders, and were cancelled to prevent duplicate payments.

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#### **Questionable Competitive Selection Process for Microcomputers**

In the 1986 fiscal year, the University renewed a contract for supply, delivery and installation of microcomputers and related accessories with the local supplier. Purchases from this supplier were \$982,000 and \$830,000 for the 1986 and 1987 fiscal years respectively. There were several unusual circumstances involved in the awarding of the contract.

In 1985, a formal Request for Proposal with sealed bids was called for the supply of computer equipment, beginning in January 1986. Based on an extensive analysis, including a survey, vendor presentations and technical evaluations, a selection committee recommended a new supplier. **The committee indicated that the new supplier offered superior price, service, support, and comparable quality and delivery.**

**After a 30-day trial period with the new supplier, the contract was subsequently renewed with the local supplier. The factors which altered the original recommendation are questionable.** Specifically:

- . New bids were requested due to changes in import duty rebates even though these applied to all dealers equally.
- . Revised prices were compared using a different sample of items than the original tender.
- . Management solicited only the local supplier to further submit at least two bids, both times permitting the supplier to lower the price. There was no indication that the other suppliers were even asked to re-submit bids.
- . Location was mentioned as something that "may cause an inconvenience." However, no evidence was introduced to justify altering the original decision that location should not be a determining factor.

## Inspection Audit, University of Guelph

Both the original and the revised recommendation stated that the new supplier "was first choice for reasons other than low price, i.e. service, support, order follow-up and product information." However, the final recommendation selected the local supplier based primarily on price, even though the new supplier's prices were lower.

### Approval of Former President's Expense Claims

University policies require that all claimants obtain approval for the expenses they incur on University business. **However, during the former president's term in office, which ended June 30, 1988, independent approval was not obtained for his expenses.**

The president's contract permitted the reimbursement of all reasonable expenses incurred in the performance of University duties. The contract also allowed spousal expenses when in the University's best interests. As a result of our audit, members of the Board reviewed all such expenditures for the year ended April 30, 1988 in detail and were satisfied that these expenses were reasonable, and that travel expenses were incurred as part of the president's fund-raising campaign.

We understand that the Board now requires all personal expenses of the president to be approved by the vice-president, Administration, and reviewed by the chairman semi-annually.

### PAYROLL AND EMPLOYEE BENEFITS

#### Adequate Processing Controls

In the 1988 fiscal year, payroll expenses of \$113 million constituted over 75 per cent of total operating fund expenditures of \$144 million.

The payroll operation is a computerized system created in-house. All employees are paid bi-weekly. We tested the controls over the payroll function and observed:

- Adequate separation of duties existed between authorization of payroll information and the processing and distribution of the bi-weekly payroll.
- Adequate supervisory review and approval existed over the payroll function.
- Payments made to University employees with respect to wages and salaries were accurately calculated and approved.

#### Questionable Retirement Benefits

The former president had previously been employed by the University from 1948 to 1970. He returned as president for a contracted term of four and a half years, from January 1984 to June 1988. The contracted salary in 1987/88 was \$148,500. He also received \$24,750 annually in lieu of administrative leave. His employment contract stipulated that he would not participate in the University's pension plans.

## Comments on Government-wide Matters and Special Reviews

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When his contract expired on June 30, 1988, he received an Early Retirement Option (ERO) payment of over \$100,000. According to the University, the Board initiated the ERO so that members could retire early and young academics could then be hired. The ERO entitled the employees to receive their regular retirement pension payments and also receive a special lump sum cash payment.

**The ERO payment to the president was questionable because he was a contract employee and there was no obligation on the University's part to renew the contract when it expired. Therefore, there was no need to offer an incentive for "early retirement."**

Upon expiry of the contract, the president assumed tenured professor status. The University maintained that the ERO was granted to him in that capacity. However, the relevant contractual provision placed no financial obligation on the University:

"After the termination of their Agreement . . . the appointment . . . as a professor with tenure shall continue but he shall not be obliged to render any service to the University as a result of such appointment nor shall he be entitled to receive any compensation from the University unless the parties hereto agree."

**In any event, we questioned the amount of the ERO payment. The calculation was based on his president's compensation (\$173,250) rather than on a professor's salary. If calculated on the basis of the salary payable to a professor, the ERO payment would have been about \$50,000 less.**

**We also noted that, on retirement, the president received in excess of \$30,000 for 48 vacation days. This is the maximum he could accumulate according to University policy. However, no records were kept either by Personnel or by his own department of any vacation days accumulated or taken.**

The University maintained that the president rarely took vacation during his term in office. However, University policy requires that each department maintain vacation records.

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### Employee Benefits

During our review of the incoming president's contract, we noted:

- . A \$235,000 interest-free mortgage loan was given to purchase a house in Toronto. Monthly payments of \$500 are to be made to the University for the reduction of mortgage principal. The principal balance is due in full, at the option of the University, on termination of the contract.
- . There was a provision for a paid nine-month administrative leave at the end of his term in office.
- . A car and driver were provided for the president's use.

The University advised us that these arrangements were necessary to secure the services of the president of choice and were not unusual.

## Inspection Audit, University of Guelph

### *SABBATICAL (STUDY/RESEARCH) LEAVE*

#### Overview

Faculty can apply for sabbatical leave (also known as Study/Research Leave) after six years of full-time service. Theoretically, therefore, one-sixth of the faculty and academic administrative staff could be on sabbatical leave at any given time. However, according to University policy, sabbatical leave is not an automatic entitlement. A sabbatical application outlining the research or other work to be undertaken must be approved by a Department Tenure and Promotion Committee. In practice, approximately 10 per cent of faculty is on leave each year.

As of January, 1987, the University's policy was to award seven months leave at 100 per cent salary. Each additional month taken resulted in a five per cent reduction in salary, so that if 12 months leave were taken (the maximum allowed), the faculty member received 75 per cent of salary.

#### Sabbatical Pay Improperly Calculated

**Sabbatical pay calculations for 3 of the 20 employees examined were either incorrect or questionable.** In one case University policy had been overridden by the vice-president, Academic. However, University policy does not permit such discretion.

**In three cases, we also encountered differences between periods of sabbatical leave reported on the list provided by the University and the payroll records.** The University maintained that the payroll records were accurate and that the differences arose because the list had been compiled from information supplied by individual departments rather than from the payroll records. Although we accepted the accuracy of the payroll records, we were concerned that individual departments did not keep accurate records of sabbatical leaves granted.

#### Reporting Requirements Not Followed

University policy requires that a written report, describing results and accomplishments in relation to the initial study/research proposal, be submitted within two months of returning from leave. We asked to review the reports of the 20 employees selected to ensure that this requirement was met.

At the time of our request, the official responsible for this area was on vacation. Therefore, the reports were forwarded to our Office subsequent to the conclusion of our field work. We noted:

- . Eight of the employees did not submit a report.
- . Four of the reports were dated after the two-month submission requirement. These four reports were submitted 3, 11, 16 and 20 months after sabbatical leaves were concluded. In the latter three cases, we noted that the reports were actually prepared after the date of our request.

## Comments on Government-wide Matters and Special Reviews

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- **Three reports were undated.** Therefore, we were unable to verify the date these reports were submitted.

Upon discussion of our findings with the University, the University informed us that the policy requiring a written report did not come into effect until March 1987 and was intended to apply only to employees who commenced their leave after that date. On that basis, seven of the eight employees who did not submit a report were not required to do so as they commenced their leave prior to March 1987. According to the University, the one employee who was required to submit a report refused to do so.

From the wording of the policy, it was unclear who it applied to as evidenced by the fact that some employees who commenced their leave prior to March 1987 did submit a report.

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### RESPONSES

Responses were received from the University of Guelph and the Ministry of Colleges and Universities. The Ministry commented on Enrolment Reporting only. The Ministry's and the University's comments on Enrolment Reporting are summarized in the Commentary of the Report. The University's comments on other issues follow.

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#### PLANT ASSETS

##### **Poor Safeguarding of Assets**

*"The University does have controls over assets for which the risk warrants the expense. Examples are:*

- *computing equipment*
- *fire equipment*
- *Library collection*
- *Art collection.*

*"The University has appropriate insurance coverage and does have internal policies covering many aspects of its control including its own security force."*

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#### PURCHASING AND PAYMENT PROCEDURES

##### **Questionable Competitive Selection Process for Microcomputers**

*"As a result of a thirty day trial period and revised quotes received, the University believes that its final choice of a vendor for microcomputers was appropriate."*

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##### **Approval of Former President's Expense Claims**

*"The former President's expenses have now been reviewed by a special Board committee which is satisfied that they were reasonable. A formal procedure has now been established for the regular review and approval of the President's expenses."*

## Inspection Audit, University of Guelph

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### PAYROLL AND EMPLOYEE BENEFITS

#### **Questionable Retirement Benefits**

*"After his resignation as President, the former President retained his position as a tenured professor in Land Resource Science. That, in conjunction with his status as a former civil servant, allowed him to elect to take the same early retirement option as other tenured professors and employees who were former civil servants.*

*"However, in reviewing all of the information, we have discovered that an error had been made in the calculation of this benefit by adding administrative leave to salary resulting in an overpayment of approximately \$14,000."*

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#### **Employee Benefits**

*"The benefits provided in the incoming President's contract are not unusual and are consistent with those provided to other Presidents.*

*"Since the 'President's House' at the University of Guelph was renovated and made into a Reception Centre which is used several days and evenings a week for University functions, it is unsuitable as a permanent family residence. That being so, the University would have had to provide a house for the President and his family. In lieu of this, the President was given a mortgage loan.*

*"Past Presidents of the University have had the use of a car and frequently a driver. In the recent past, Presidents of the University of Guelph have had to spend substantial amounts of time in Toronto for a variety of reasons, including Ministry meetings, fund raising, and social and business obligations connected with the University. In these circumstances, the Board has deemed it prudent to provide the President with a driver when necessary."*

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### SABBATICAL (STUDY/RESEARCH) LEAVE

#### **Sabbatical Pay Improperly Calculated**

*"In the one case of substance, an appropriate increase in study/research leave was approved by the Vice President, Academic to compensate the individual for undertaking substantial additional administration responsibilities at the University."*

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#### **Reporting Requirements Not Followed**

*"Effective March 1987 the University's policy was amended to introduce formal reporting requirements upon return from study/research level. Such reports were not required prior to March 1987. The first reports under the new policy would normally have been required to have been submitted after May 1, 1988 which was subsequent to the 1987-88 fiscal year audited for the Auditor's Report."*

## Comments on Government-wide Matters and Special Reviews

### 2.9

#### Inspection Audit, York-Finch General Hospital, Ministry of Health

York-Finch General Hospital is a 300-bed acute care facility situated in the City of North York. It offers numerous in-patient and out-patient services.

During the 1989 fiscal year, the Hospital received operating grants of \$34.5 million from the Ministry of Health.

#### SUMMARY

#### SCOPE AND OBJECTIVE

Our basic objective was to assess the adequacy of the Hospital's accounting records and related procedures. Specifically, we examined whether controls over payroll and other expenditures were adequate and that such expenditures were made in accordance with the policies and procedures established by the Board of Governors.

#### CONCLUSION AND FINDINGS

##### *PAYROLL AND OTHER EXPENDITURES*

On the whole, we concluded that the Hospital's accounting records and related procedures were satisfactory. We found the following to be well-controlled:

- . Payroll and the processing and payment of other expenditures.
- . Acquisition of drugs and medical and surgical supplies.
- . Safekeeping of equipment.

However, we also found some significant deficiencies:

- . Controls over the acquisition of equipment, general supplies and services needed major improvement.
  - Purchases were frequently made without the benefit of a competitive selection process.
  - Board approval of substantial financial arrangements with two physicians was not documented. In the 1988 fiscal year, payments to these physicians totalled \$1,150,000, out of which they had to pay certain assisting staff.
- . Accounting controls over drug inventories were weak.
  - The Hospital was not able to adequately explain drug cost increases. We were particularly concerned since drug costs increased by 140 per cent over the past five years.
- . Improvement in controls over medical and surgical supplies was required.
  - Prompt follow-up of discrepancies in the records of medical and surgical supplies was required to ensure the Hospital was not vulnerable to misappropriation of supplies.

## Inspection Audit, York-Finch General Hospital

### OTHER MATTER

**Despite its designation as an acute care Hospital, 15 per cent of all beds were occupied by long-term care patients. If these patients were placed in chronic care hospitals, the related beds could be made available, enabling the Hospital to better serve the acute care needs of its community.**

### BACKGROUND

As at January 1989, the Hospital employed 580 full-time and 510 part-time staff. In general, physicians are not employees of the Hospital. However, approximately 250 physicians were associated with the Hospital and authorized to admit patients and use Hospital facilities. Expenditure for the 1988 fiscal year totalled \$37.9 million.

Total revenue of the Hospital for the 1988 fiscal year was \$37.1 million. The Ministry provided \$31.7 million of the revenue (85 per cent) while the remaining \$5.4 million was derived from other ancillary sources such as preferred accommodation, cafeteria and parking.

### COMMENTARY

#### PAYROLL AND OTHER EXPENDITURES

##### Satisfactory Procedures

For the 1988 fiscal year, salaries, wages and benefits totalled \$26 million or 70 per cent of total Hospital expenditure. Other expenditures consisted of \$6.4 million for general supplies and services, \$2.9 million for drugs and medical and surgical supplies, and \$.9 million for equipment. **Satisfactory controls existed over payroll and other expenditures.**

Fifty Toronto-area hospitals, including York-Finch, have grouped together and negotiated purchasing arrangements for most drugs and medical and surgical supplies. This enables the Hospital to acquire these items more economically than it could on an individual basis. In addition, the Hospital utilizes a prime vendor for some medical and surgical supplies which is consistent with practices of other hospitals. **Our review of these purchasing procedures did not reveal any major deficiencies.**

As at March 31, 1988, fixed assets were recorded at a depreciated value of \$13.1 million (with an original cost of \$22.3 million) in the Hospital's financial statements. Of this, \$7.7 million was land and buildings and \$5.4 million was equipment.

Our audit focused on the equipment category as many of these items are more susceptible to loss or misappropriation. Examples of items included in our testing were microcomputers, typewriters, VCRs and microscopes. **Our review did not reveal any major deficiencies with the controlling and accounting for equipment.**

## Comments on Government-wide Matters and Special Reviews

### Controls over the Acquisition of Equipment, General Supplies and Services Needed Major Improvement

#### *Competitive Selection Process Not Used*

There was no Board policy requiring the use of a competitive selection process for the acquisition of goods and services. Furthermore, a policy was not in place requiring the Board to approve the selection process and selected vendor, prior to the agreement award, for goods and services over a certain dollar limit (e.g. \$25,000). From our discussion with other hospitals, we were informed that some have a competitive selection policy for goods and services acquired. For example, we found that one hospital required formal tenders to be obtained for purchases in excess of \$10,000.

To review the extent to which a competitive selection process was used and Board approval obtained, we examined a sample of 20 expenditures totalling \$1.9 million, incurred over the 1988 and 1989 fiscal years. **We found that purchases were frequently made without the benefit of a competitive selection process.**

For ten expenditures, exceeding \$25,000 each, we noted:

- four purchases totalling \$520,000 where a competitive selection process was not followed and Board approvals were not documented. Two purchases involved medical equipment and two, other supplies and services.
- three purchases of medical equipment totalling \$318,000 where two or more quotations were obtained and evidence existed to support the decisions about the suppliers. Board approvals were not documented for these purchases.
- one purchase, relating to architectural design fees, with a current estimated contract cost of approximately \$830,000 (\$85,000 paid in fiscal 1988), where the Hospital received proposals from seven firms. Specific documentation was not available to explain the way the proposals were evaluated and the reasons for awarding the contract to the successful firm. Board approval, however, was documented for the awarding of the contract.

The difference between the firm receiving the contract and the firm submitting the lowest bid was approximately \$35,000. The final agreement was summarized by the successful firm in a letter to the Hospital, dated February 1987. According to the letter, the contract included a \$50,000 donation to the Hospital over a five-year period. Management informed us that no portion of this donation had been received.

- another purchase, where proposals were received from five firms for a five-year dietary services contract in excess of \$3.3 million (\$700,000 paid in the 1988 fiscal year). There was neither documentation outlining the rationale behind the awarding of the contract to the successful bidder nor information which would readily establish whether the contract was awarded to the lowest bidder. Board approval had not been documented for this contract.

Three firms, including the successful one, proposed donations. The successful firm's donation of \$75,000 was to be used by the Hospital for

## Inspection Audit, York-Finch General Hospital

whatever purpose it chose. However, according to management, the cheque was recorded in the Foundation's records, rather than the Hospital's.

In five of the ten remaining expenditures, of \$25,000 or less, there was no evidence that a competitive selection process was followed.

### *Board Approval of Large Medical Fee Arrangements Not Documented*

The Hospital has made arrangements with several physicians whereby they undertake responsibility for providing certain medical services at the Hospital. In the 1988 fiscal year, such payments were as follows:

|            | \$               |
|------------|------------------|
| Radiology  | 750,000          |
| Pathology  | 400,000          |
| Cardiology | 225,000          |
| Other      | <u>125,000</u>   |
|            | <u>1,500,000</u> |

Our review of these arrangements focused on the two largest payments, radiology and pathology.

Essentially, the Hospital bills OHIP for all radiological services provided and the chief of radiology is paid an amount based on the OHIP billings. **For the 1988 fiscal year, the Hospital paid the chief \$750,000. We were informed by management that the chief is responsible for paying four radiologists who assist him in providing the services.**

The financial arrangement with the chief of pathology requires the Hospital to pay him an annual salary of \$93,000 for activities including supervision of laboratory technicians, plus an amount based on the OHIP fee schedule for pathology services rendered. **For the 1988 fiscal year, the Hospital paid the chief approximately \$400,000. We were informed by management that the chief is responsible for paying one full-time and one part-time pathologist and two part-time consultants who assist him in providing these services.**

According to the Hospital by-laws, the maximum period a department chief may serve in such a capacity is six years. However, a special resolution of the Board may be passed to extend the term. We reviewed the length of service and financial arrangements of these two department chiefs and noted:

- . Both chiefs have served well beyond the maximum period permitted under the by-law without Board approval. The chief of radiology and the chief of pathology were appointed in 1976 and 1977 respectively.
- . Board approval for the financial arrangements with both chiefs was not documented.

## **Comments on Government-wide Matters and Special Reviews**

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### **Weak Accounting Controls over Drug Inventories**

For the 1988 fiscal year, the Hospital spent approximately \$1.2 million on drugs, 95 per cent for Non-Controlled Drugs such as antibiotics, valium and aspirin, and 5 per cent for Controlled Drugs such as morphine and codeine. As at March 31, 1988 the pharmacy department had approximately \$280,000 in drugs of which approximately \$265,000 were Non-Controlled Drugs and \$15,000 were Controlled Drugs.

The Hospital uses the unit dose system for drug distribution recommended by the Dubin Inquiry at the Hospital for Sick Children. Under this system, both solid and liquid drug forms are prepared in the pharmacy and transported to the Hospital departments for single dose administration to the patient. This system ensures that only a 24-hour supply of drugs is held in the nursing units.

A perpetual inventory record enables periodic counts of stock and a comparison with what should be on hand. Significant differences are often indicative of pilferage or other problems that can then be immediately investigated by management before the problems become widespread. A record of stock issued by department enables management to monitor monthly costs and to investigate unusual fluctuations.

Accurate perpetual inventory records were maintained by the pharmacy department for Controlled Drugs and adequate safeguards were in place to restrict access to authorized employees. However, perpetual records of Non-Controlled Drugs were not maintained and access by pharmacy department staff to these drugs was not restricted. Also, the pharmacy department did not maintain adequate records of Non-Controlled Drugs issued to Hospital departments.

With such control deficiencies, the Hospital was not able to adequately explain increases in drug costs resulting from drug issuance/usage versus their price increases. We were particularly concerned since drug costs have increased by 140 per cent in the 1988 fiscal year from the 1983 fiscal year.

A Strategic Planning Study for Hospital/Patient Care Information Systems, completed in January 1987 by a consulting firm, indicated that the pharmacy department needs to be automated at an early date. This automation project includes a perpetual inventory system. We understood from discussions with senior management, that while this project has not been undertaken due to lack of funds, it remains a high priority.

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### **Improvements Required over Control of Medical and Surgical Supplies**

For the 1988 fiscal year, the Hospital spent approximately \$1.7 million on medical and surgical supplies (e.g. needles, bandages, and sutures). According to the perpetual inventory records, supplies of approximately \$165,000 were on hand in central supply. Supplies are distributed to all areas of the Hospital including nursing units, the emergency department and the operating room. The costs of supplies issued are charged to each department.

## Inspection Audit, York-Finch General Hospital

In order to review the accuracy of the perpetual records, we selected 15 items and compared the actual quantity to the amount identified in the records as at February 28, 1989. Our review revealed differences in 11 of the 15 items. In several cases, the actual quantity was significantly higher or lower than the perpetual records. Similar results were noted when the Hospital conducted its 1988 fiscal year-end count.

Although management adjusted the perpetual records at February 28, 1989 to equal the actual count taken, discrepancies were again noted only one month later when the March 31, 1989 year-end count was taken. For example, the records reflected approximately 14,000 needles and syringes but the actual was only 12,200. In another instance, the records indicated approximately 500 thermometers but the actual was only 435. **Without prompt follow-up of such discrepancies, the Hospital is vulnerable to misappropriation of supplies.**

We were informed by management during our audit that they had identified errors and were acting to improve the accuracy of the perpetual records.

**We also reviewed the controls over access to medical and surgical supplies maintained at the nursing units and observed that in many units these supplies could be easily obtained by almost anyone in the general vicinity.**

**We compared the actual costs to budget for four departments for three months in the 1989 fiscal year. On many occasions, the actual cost was significantly higher than the budget and there was no documentation to indicate that these variances had been investigated.** For example, one department budgeted approximately \$15,000 for medical and surgical supplies for a month yet the actual cost was \$25,500 or 70 per cent higher than that budgeted. While the Board's Finance Committee was provided with the overall Hospital variance for medical and surgical supplies each month, no breakdown was provided by department.

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### OTHER MATTER

#### **Inappropriate Use of Acute Care Beds**

In Ontario, 148 of 223 public hospitals have beds which are designated and approved by the Ministry for providing care to chronically ill patients. These are patients who have reached the apparent limit of their recovery or have an illness of a long-term nature that requires placement in a long-term care facility such as chronic care hospitals, nursing homes, and homes for the aged.

Each hospital in Ontario is required to submit monthly reports to the Ministry that detail the number of patients awaiting placement in long-term care facilities, and the number of beds available.

Although York-Finch is not approved for chronic care, as at January 1, 1988, the Hospital had 55 long-term care patients in acute beds. Fifteen of these patients had been in the Hospital in excess of one year. In fact, Hospital reports indicated that an average of 49 beds (15 per cent) were occupied during the 1988 fiscal year by patients awaiting placement in long-term care facilities.

## Comments on Government-wide Matters and Special Reviews

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We acknowledge the efforts the Hospital has taken to improve the quality of care provided to these patients. For example, the patients have been segregated to one area of the Hospital, exercise programs have been initiated and social activities encouraged. Nevertheless, the placement of the long-term patients to more appropriate facilities is the responsibility of the Hospital and is dependant on the Hospital being able to locate beds in a chronic care facility.

We noted from the monthly reports submitted to the Ministry that **there were chronic care beds available at other hospitals within the Metropolitan Toronto area at the same time that the Hospital had patients awaiting placement in long-term care facilities. However, the Ministry does not make this information available to the Hospital.**

Costs associated with long-term care patients are not separately maintained by the Hospital. However, the average cost per day of all patients in the Hospital is \$375 compared with an average of \$175 per day for hospitals that are specifically designated as chronic care hospitals. **If long-term care were placed in chronic care hospitals and the related acute beds in the Hospital closed, we estimated that the Province could save approximately \$2 million for the 1988 fiscal year. Alternatively, if these beds were made available, the Hospital could better serve the acute care needs of its community and other hospitals.**

According to Ministry policy, patients who have been admitted to an approved chronic care hospital are required to pay a chronic care co-payment. For the 1988 fiscal year, the co-payment was approximately \$640 per month. There are a number of circumstances in which patients may qualify for full or partial exemptions from this co-payment. **If 75 per cent of the patients in chronic care beds were able to pay the full co-payment fee, the hospitals could have received approximately \$280,000 for the 1988 fiscal year.**

We recommended that the Ministry assist the Hospital in locating available chronic care beds for those patients awaiting placement in long-term care facilities.

Currently, the Ontario government is completing a plan that will address the reform of long-term care for the elderly and people with physical disabilities. The plan is scheduled for completion in early 1990. The reform is intended to reduce the use of acute care beds by chronic care patients.

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### RESPONSES

We received responses from York-Finch General Hospital and the Ministry of Health.

York-Finch responded on September 13, 1989.

## Inspection Audit, York-Finch General Hospital

### PAYROLL AND OTHER EXPENDITURES

#### **Controls over the Acquisition of Equipment, General Supplies and Services Needed Major Improvement**

##### *Competitive Selection Process Not Used*

*"The Board of Governors, upon the recommendation of the Finance Committee of the Board, approve the dollar amount to be allocated for the acquisition of capital equipment. Another committee of the Board, the Equipment Acquisition Committee has the responsibility to prioritize equipment requests within the dollar allocation approved by the Board of Governors.*

*"Over 75 per cent of the budget for other supplies and expenses is either tendered or relates to utilities/laundry/service contracts. The remaining 25% includes a significant number of low dollar cost items. Where feasible, the hospital attempts to obtain telephone or written quotations on these items."*

For the ten expenditures:

- *These specific pieces of medical equipment were purchased after extensive evaluation by medical and nursing staff. Under existing hospital policy further board approval was not required.*

*York-Finch General Hospital utilizes a day-light system for films and this specialty film is not widely available. A review was undertaken and it was determined that the current supplier offered the most extensive service at the lowest cost compared to three other suppliers.*

*The hospital utilizes the service of an agent to co-ordinate placement of its employment adds with local newspapers. The agent reimburses the newspapers and the hospital realizes a 5% saving in overall advertising costs.*

- *These specific pieces of medical equipment were purchased after extensive evaluation by medical and nursing staff. Under existing hospital policy further Board approval was not required.*
- *The Board awarded the contract to the architectural firm recommended by a committee of the Board who interviewed seven firms. This committee of the Board was comprised of 13 members, and based its recommendation on the experience of the firm and the assigned architectural staff; extensive reference checks; and the approach and methodology to be used. The fees being paid are based upon approved Ministry of Health guidelines.*
- *The Board was fully informed that Administration was considering contracting out the food service operation in order to provide a better service at a lesser cost. Documentation which identified all the firms responding, as well as the analysis of their proposals was available. The Board were kept fully aware of the process by the hospital President and agreed with the decision to award the contract to the current firm.*

*"Notwithstanding the above individual responses, the Board accepts this recommendation and have introduced a policy (which outlines dollar limits for both Board approvals and the use of competitive selection procedures)."*

## Comments on Government-wide Matters and Special Reviews

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### *Board Approval of Large Medical Fee Arrangements Not Documented*

*"The departments of Radiology and Pathology are exceptions because of the contractual arrangements with the providers of these services. The Board is fully aware of these arrangements, and the by-laws will be amended to reflect the special status of these two departments."*

*"The hospital has contracts with the Chiefs of Radiology and Pathology. The Board is fully aware of the financial arrangements included in these contracts. As part of the annual budget approval process, the Board approves the financial arrangements and all variances to the budget amounts are reviewed monthly by the Finance Committee of the Board."*

### **Weak Accounting Controls over Drug Inventories**

*"Pursuant to a major recommendation of the Dubin Enquiry at the Hospital for Sick Children, York-Finch General Hospital introduced a unit dose system of drug distribution. This system has major advantages in the area of patient safety and physical control of drugs. York-Finch General Hospital was cognizant of the fact that the hospital would require computerization to maintain perpetual inventory records. However, the hospital believed that the physical control in place as a result of the unit dose system far outweighs the record keeping abilities of alternate systems. Computerization has been delayed due to lack of funds."*

*"However, the hospital plans to proceed with implementation of Phase I of its strategic plan for computerization in the current fiscal year. This will include a perpetual inventory system in Pharmacy."*

*"Pharmacy staff have responsibility to dispense and distribute drugs. If their access is restricted then who would take responsibility for these functions?"*

*"Over the past five years the price of drugs has increased by 106 per cent. As well, during that period the hospital has undergone a significant increase in patient activity levels. These two factors, combined with the introduction into the marketplace of expensive third generation antibiotics, have been the major contributors to this increase in cost. A recent educational publication on hospital pharmacies noted that many hospitals have experienced increases in the range of 170 per cent in drug costs over the same time span."*

### **Improvements Required over Control of Medical and Surgical Supplies**

*"There are in excess of 1,000 inventory items in two locations. The hospital continues to improve the perpetual inventory records of the hospital. All variances are followed up, and in the majority of cases are the result of key punching errors. The hospital is currently exploring the cost benefit of a bar coding system."*

*"The hospital attempts to restrict access to medical and surgical supplies maintained on the nursing units. However, in order to provide patients with necessary medical and surgical supplies, access must take priority over bookkeeping issues."*

## Inspection Audit, York-Finch General Hospital

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The Ministry of Health responded on September 19, 1989.

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### OTHER MATTER

#### ***Inappropriate Use of Acute Care Beds***

*"The Ministry has set up a Central Beds Registry which is available to all hospitals in Toronto. The Registry shows acute care and chronic care beds and this information is available to the Hospital.*

*"We would also note that the Ministry of Community and Social Services is leading to an interministerial task force aimed at drafting a plan for long-term care for the elderly and people with physical disabilities. The plan is expected to provide community care alternatives and enhance the placement system."*



CHAPTER

3

COMMENTS ON MINISTRY  
AND CROWN AGENCY AUDITS



## CHAPTER 3

### COMMENTS ON MINISTRY AND CROWN AGENCY AUDITS

#### 3.1

##### Introduction

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ministry and Crown agency audits.

The comments on ministries were selected from the cyclical audits of ministries. The audits on which the comments are based were completed since our last Report and are listed in Exhibit 2.

The term Crown agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. Agencies of the Crown and Crown controlled corporation audits for the year ended March 31, 1989 are listed in Exhibits 3 and 4, respectively.

The annual attest audits of Crown agencies are primarily designed to express an opinion on whether the agencies' financial statements are presented fairly.

In addition to the attest audits, some agencies are selected by this Office for a broader scope audit. Typically, one of the more significant operational areas of the agency is reviewed for evidence of good management practices relating to economy, efficiency and/or procedures to measure effectiveness.

#### 3.2

##### Poor Utilization and Monitoring of District Courtrooms and Staff, Ministry of the Attorney General

The court system in Ontario is comprised of three tiers of courts: the Supreme Court of Ontario, the Provincial Courts, and the District Courts. All three courts are under the Administration of Justice Activity of the Ministry of the Attorney General. The District Courts had expenditures of \$47.8 million in the 1989 fiscal year (Vote 306, Item 2).

#### SUMMARY

##### SCOPE AND OBJECTIVE

Our audit was conducted at the Ministry's main office and at four District Courts located in the judicial districts of York (Toronto), Peel (Brampton), Middlesex (London) and Ottawa-Carleton. A survey questionnaire was also used to obtain information on District Court operations from ten judicial districts. In addition, we interviewed four District Court judges including the Chief Judge.

Our audit objective was to assess whether courtrooms and staff were utilized in a cost-effective manner.

##### CONCLUSIONS AND FINDINGS

We concluded that district courtrooms were not utilized efficiently and there was no formal monitoring of court staff productivity.

- Approximately 15,000 cases were awaiting trial, yet courtrooms were utilized only 50 per cent of the time.
- Six new courtrooms, constructed at a cost of \$9.5 million, were only utilized 40 per cent of the time from July to December 1988.

## Comments on Ministry and Crown Agency Audits

- There was no formal monitoring system to assess how effectively each District Court was in disposing of cases. For instance, judges and staff at the York District Court, on average, had significantly heavier caseloads than those in most other districts.
- A reduction in security searches of persons entering courtrooms, together with a concern as to the physical prowess of court constables to handle emergency situations, makes safety of the courts questionable.

As well, we found little monitoring of the management practices in Sheriffs' Offices.

In arriving at our conclusions and findings, we acknowledged that the Ministry is currently embarking on major organizational changes to both the courts themselves, and to the courts administration system and the crown attorney system.

### BACKGROUND

There are 49 District Courts in Ontario, one for each district of the Province. They are staffed by approximately 1,100 personnel. In addition, there are 164 District Court judges, all of whom are appointed and paid by the Federal Government. In the 1988 fiscal year, about 46,000 cases, both criminal and civil, were disposed of by District Court judges.

The District Court has very broad jurisdiction to conduct court proceedings. In criminal matters, the District Court has jurisdiction to try indictable offences. In civil matters, the District Court has jurisdiction in cases where the amount involved is under \$25,000 but greater than \$1,000 (\$3,000 in the Metropolitan Toronto area).

Each District Court is administered by a Local Registrar and Sheriff who perform legal administrative duties and provide other support services to the courts. In the smaller districts, these positions are usually held by one person. District Registrar Offices employ about 500 individuals who perform administrative and clerical duties (court reporting, maintenance of case files, etc.) in each of the District Courts. The Sheriff's staff are responsible for enforcement of orders of the court, such as property seizures and evictions.

### COMMENTARY

#### Courtroom Utilization Still Low

The number of cases awaiting trial has been steadily increasing over the years. Some of these cases date back years. For instance, the Ministry identified 600 criminal jury cases that have been pending for over 18 months.

## Attorney General

### District Courts

Utilization of courtrooms is seen as an increasingly critical issue as the number of cases pending trial are increasing. For example, as illustrated below, cases pending trial have increased by about 15 per cent overall during the last three years.

| <u>Year</u> | <u>Cases Pending</u> |
|-------------|----------------------|
| 1986        | 12,700               |
| 1987        | 13,900               |
| 1988        | 14,800               |

One of the most critical factors in reducing cases pending is the ability of each District Court to schedule courtroom time to ensure courtrooms are kept as fully utilized as possible without over-scheduling.

The scheduling of courtroom time for trials entails the co-ordination and the availability of all parties including judges, lawyers, plaintiffs, defendants and juries, if a jury trial is involved. In conjunction with the District's senior judge, trial co-ordinators at each courthouse manually prepare a listing of available courtroom space and a time schedule for cases to be tried.

In our 1985 report on the District Courts, we noted significant underutilized courtrooms, and recommended improved courtroom scheduling to assist in reducing the number of cases pending trials before the courts. **At that time, the Ministry indicated that a computerized case management system was being developed which would finetune the scheduling system. During our review this year, we noted that the computerized case management system had not yet been implemented.**

At the courts visited, we reviewed the scheduling procedures for case trials and utilization of courtroom space. We were informed that, given the complexities of maintaining a timetable and schedule of courtroom usage, a standard of five and a half hours per day is considered full utilization of courtroom space.

We requested utilization data for the four Districts we visited. These statistics were not readily available. However, Ministry staff did compile the information for the six-month period, July to December 1988. We compared actual hours courtrooms were utilized to the standard of five and a half hours per day. **While we recognized that our analysis included the summer months when courtrooms were not fully used, we found that courtrooms were utilized only 50 per cent of the time, as illustrated below:**

| <u>District Court</u> | <u>Standard Hours Available</u> | <u>Actual Hours Not Used</u> | <u>Percentage Not Used</u> |
|-----------------------|---------------------------------|------------------------------|----------------------------|
| York                  | 10,912                          | 4,651                        | 42                         |
| Peel                  | 4,774                           | 2,042                        | 42                         |
| Middlesex             | 5,456                           | 3,346                        | 61                         |
| Ottawa                | <u>5,455</u>                    | <u>3,074</u>                 | <u>56</u>                  |
| TOTAL                 | <u>26,597</u>                   | <u>13,113</u>                | <u>50</u>                  |

## Comments on Ministry and Crown Agency Audits

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More specifically, it is important to note that:

- These utilization statistics are likely higher than the Ontario average as York and Peel are two of the busiest courtrooms in the Province.
- **Six new courtrooms, constructed since 1986 at a cost of \$9.5 million, were only being utilized 40 per cent of the time in the six-month period, July 1988 to December 1988.**
- During the months of July and August, the courtroom utilization rate declined to only about 27 per cent of available court time.

We understand that the computerized case management system referred to by the Ministry in our last audit is being tested and should become fully operational in the near future. The Local Registrars' staff we interviewed felt this would facilitate the scheduling process. While the judges interviewed also generally supported such a system, some felt courtroom scheduling was adequate at the present time. They felt that there were so many factors beyond their control, impacting on court utilization, that a very high utilization, such as 80 per cent, was not realistic.

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### Lack of Formal System to Monitor Performance

**The Ministry has no formal system in place to monitor or assess how effective each District Court is over time in disposing of cases through the system.**

In view of the significant number of cases pending trial, especially at the York District Court, we questioned whether the Ministry has equitably allocated staff and judges to the 49 District Courts to ensure that all Ontarians, regardless of where they live, receive a relatively consistent level of service. For example, we noted that judges at York were responsible for three times as many cases as those in Ottawa.

We now understand that the Ministry is developing a system of workload indicators for District Courts which is intended to indicate the optimum number of staff in each court.

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### Major Concerns with Court Security

#### *Reduction in Security Searches*

Under the Public Service Protection Act, security officers have the authority to search anyone in the courts at any time. In some courts, weapons' searches are conducted on a random basis. Also, Sheriffs rely on police and lawyers to inform them of particular cases which may pose security risks so that security officers can be assigned accordingly. In certain circumstances, electronic, hand-held wands are also used to search individuals entering the courtrooms.

Effective April 1988, the Ministry decided to reduce security staff assigned to the wand search program. This resulted in a decrease in searches conducted. For the 1988 year, wand searches numbered over 112,000 compared to almost 216,000 in 1987. This is a decline of about 50 per cent.

## Attorney General

### District Courts

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This measure was of particular concern since:

- In the York District Court, where over 40 per cent of all District Court cases are held, statistics on weapons seized from searches indicated an increase in the number of weapons found. **For example, between 1985 and 1987 individuals who were searched and found with potentially dangerous weapons, such as knives and guns, increased from one to seven per day.**
- The majority of Sheriffs surveyed expressed concern about the reduction in security efforts (searches) that exists in courtrooms today. One Sheriff felt that this reduction posed a serious threat to the security of judges, lawyers, jurors, court employees and the general public.
- Some of the Judges interviewed expressed similar concerns as the potential exists for more individuals with weapons to enter courtrooms without being detected.

In view of the above concerns, we recommended that the level of security searches carried out in District Courts be re-assessed. One alternative to consider is the installation of walk-through metal detectors at all entrances, similar to those used at airports.

#### *Physical Capability of Court Constables*

Court constables are generally retired individuals who have some previous military or security-related work experience. They provide general security duties for the District Court, such as escorting prisoners between holding cells and courtrooms, preventing disturbances, controlling spectators and witnesses, and guarding prisoners while they are in court.

**Sheriffs surveyed expressed concern about the age of court constables and their capability to do this type of work. For instance, according to one Sheriff: "Present staffing policies do not provide for the hiring of individuals with sufficient physical prowess and background to meet any emergency situation."**

In a random sample of 115 court constables from the four Districts visited, we observed that 24 were over the age of 70, with two individuals in their 80s. Should a violent incident occur in a courtroom, it is questionable whether these individuals would be capable of handling the situation.

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#### **Poor Monitoring of Sheriffs' Offices**

In addition to the enforcement of court orders, litigants in civil matters may utilize the Sheriff's office for serving court documents, such as summons, subpoenas and writs. Litigants are required to pay the Ministry all costs incurred for travel, documents served and enforcement work.

In some District Courts, process servers are hired to assist the Sheriffs in carrying out their duties. Usually, the hiring of these fee-for-service officers is done by the Sheriffs themselves. These officers are paid a fee for each document served or an hourly rate for enforcement duties, plus travel expenses.

## Comments on Ministry and Crown Agency Audits

### For the courts visited, we found little monitoring of the management practices in Sheriffs' Offices. Specifically:

- According to Ministry policy, as salaried employees, neither the Sheriff nor the Deputies should be actively involved in process serving. For the York District Court, we found that the Sheriff and Deputies collected fees for process serving and enforcement duties related to both criminal and civil matters.

We also noted that while the York Sheriff restricted his fee-for-service officers to one paid trip per document, even if it took two or more trips to serve the material, the Sheriff was paid for up to five trips for serving a document. For the 1989 fiscal year, enforcement fees and travel expenses paid to the Sheriff and Deputies were approximately \$11,000 and \$13,300, respectively. In February 1989, as a result of a legal opinion, the Ministry instructed the Sheriff of York to cease making payment of enforcement and other fees to himself and Deputies.

- No documented evidence was found to ascertain whether every individual hired by the Sheriffs was the best qualified. Furthermore, we noted that in the Ottawa Sheriff's Office, a number of individuals hired were either immediate family or relatives of the Sheriff. One of these was the Sheriff's son who received more work and, consequently, more fees and travel costs than the other employees.

We understand that effective June 1989, the Sheriff of the Ottawa District Court was suspended from his duties pending the completion of a Ministry review of his Office's management practices.

- For the District Courts visited, we noted that fee-for-service officers were accumulating mileage fees at a high rate and that travel expenses were a major portion of their income. For instance, in one District Court, travel income represented \$38,200 of one officer's total annual income of \$79,400. In another district, travel income of \$40,000 represented twice that received from fees.

#### RESPONSE

The Ministry responded to our findings on September 14, 1989.

#### GENERAL

*"Prior to July 1989, approximately 300 court offices in Ontario reported to three branch directors in Toronto. The span of control ranged from 73 offices reporting to the Director of the Supreme and District Court Services Branch, to 140 offices reporting to the Director of the Small Claims Court Services Branch.*

*"The Ministry has now decentralized the management of these court offices by establishing eight regions in the province, each of which is under the supervision of a Regional Director. The proximity of these directors to the court offices and the reduced span of control will significantly improve the local management practices necessary to maximize public service, through the reallocation of financial, human and physical resources to meet emerging local needs.*

## Attorney General

### District Courts

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*"To further enhance these objectives, the division plans to integrate court offices in each locality under the supervision of a single Court Services Manager as a second phase of regionalization.*

*"A Program Development Branch has been established in the Courts Administration Division to: develop improved management information systems; develop and implement court office and regional technological systems including the automation of court office procedures; improve the coordination of planning and evaluation; as well as the development of additional operational procedures, guidelines and training programs for court offices to improve the standardization and delivery of service to the public.*

*"It is expected that these changes will significantly address the underlying causes of the issues and concerns contained in this report."*

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#### **Courtroom Utilization Still Low**

*"The Ministry is very committed to reducing the backlog in District Court, but suggests that courtroom utilization is only one of many factors to be considered in the reduction of the number of cases pending. Civil case management pilot projects are being established in Windsor, Toronto and Sault Ste. Marie with the full cooperation of the bar and judiciary. In addition, automated trial coordination is being introduced in selected court offices. It is expected that these initiatives will reduce the backlog of cases pending in District courts.*

*"The findings in the auditor's report dealing with courtroom utilization are based on the review of the period from July - December, 1988. The Ministry believes that analysis of full-year data would provide a more meaningful measure of courtroom utilization, by reducing the impact of seasonal fluctuations."*

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#### **Lack of Formal System to Monitor Performance**

*"The Courts Administration Division is in the process of developing staffing standards for District Court offices. These standards break down types of cases into their component work elements, comparable to the staffing standards that are in place in Provincial Court offices."*

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#### **Major Concerns with Court Security**

*"Legislation was passed on June 20, 1989, transferring the responsibility for court security from sheriffs to municipal police forces. This legislation, to be proclaimed in effect on January 1, 1990, recognizes that police authorities are best suited to assume responsibility for court security due to their extensive training and ongoing experience. In addition, they possess a more intimate knowledge of possible security concerns relating to parties who are to appear in court and are therefore in the best position to determine the appropriate level of security needed in each instance. Sheriffs will work with municipal police forces during the transition period to ensure an orderly transfer of security responsibilities and to address localized security needs.*

## Comments on Ministry and Crown Agency Audits

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*"The Ministry will retain courtroom constables to provide general information to the public and to maintain established courtroom decorum."*

### **Poor Monitoring of Sheriffs' Offices**

*"It is the responsibility of sheriffs to ensure that documents are served in a timely and proper manner. While Ministry policy restricts the amount of process serving that should be completed by the sheriff and salaried sheriff's officers, it is recognized that these individuals may have to effect service where urgency exists or in other unusual or extenuating circumstances. The Ministry has instructed sheriffs that the volume of documents served by them or salaried officers should not exceed five per cent of the process serving performed by the office."*

*"A sheriff is given the authority in numerous statutes to enforce court orders. In the District Court in Toronto, in an effort to ensure expeditious enforcement, the sheriff utilizes the services of salaried officers for such enforcement proceedings. It had been his practice to pay fees to such individuals for enforcement activities conducted outside of normal working hours. The Ministry, in reviewing the appropriateness of this practice, obtained legal advice and subsequently instructed the sheriff to desist from making such fee payments, and the practice was discontinued."*

*"Salaried officers are entitled to compensation for expenses incurred, in accordance with the Manual of Administration, when service documents or enforcing court orders."*

*"Improprieties in the Ottawa Sheriff's office were recognized by the Ministry in June, 1989, and an internal investigation was initiated. Appropriate measures, including possible disciplinary action, will be implemented based upon the results of the investigation."*

*"The Ministry intends, as part of its efforts to ensure better accountability and consistency in practices across the province, to develop written procedures to be used by court officials in the selection and use of fee-for-service officers."*

*"The lack of consistency of court officials in implementing Ministry procedures has been identified by Regional Directors who are instituting changes to bring about conformity. The sheriff in the District Court in Toronto, in an effort to improve financial control, has established the position of a budget officer, who will, together with the sheriff, closely monitor all travel claims presented and ensure consistency with established Ministry procedure."*

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### **3.3**

#### **Inadequate Monitoring of Child Care Payments, Children's Services Activity, Ministry of Community and Social Services**

The Ministry of Community and Social Services pays subsidies and grants to municipalities, licensed day nurseries, and Indian Bands for providing child care services. During the 1989 fiscal year, the Ministry paid approximately \$255 million for such services (Vote 802, Item 5).

## Community and Social Services

### Children's Services Activity

#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit of the Ministry's child care payments included discussions with Ministry and municipal officials, visits to 6 municipal offices, 34 day care centres and 3 of the Ministry's 13 area offices, which are responsible for approximately 35 per cent of Ontario's licensed day care centres.

Our audit objectives were to assess whether:

- the Ministry and municipalities were complying with the Day Nurseries Act and Regulation and established guidelines; and
- subsidies to municipalities were used to provide cost-effective services.

#### CONCLUSIONS AND FINDINGS

##### COMPLIANCE WITH LEGISLATION AND POLICY

We concluded that procedures were inadequate to ensure compliance with the licensing, inspection and financial needs testing provisions of the Day Nurseries Act and Regulation, and Ministry-established guidelines. Some of our specific concerns were as follows:

##### *Licensing and Inspection*

- Inappropriate day care licences were issued to many centres.
- The Ministry has not adequately monitored the operations of chronic problem day care centres. Furthermore, centres which violate health and safety standards year after year do not have their licences revoked.

##### *Needs Testing*

- Municipal and Ministry offices were giving subsidies to ineligible families.
- Inadequate attention is being paid to scrutinizing needs testing applications. Information supplied by applicants was seldom verified.

Discretionary application of the needs test has resulted in anomalous situations. For example, families earning up to \$60,000 annually could qualify for subsidy.

##### SUBSIDY PAYMENTS AND COST EFFECTIVENESS

The Ministry does not ensure subsidies are used to provide cost-effective services. Specifically:

- The current method of allocating funds among municipalities does not address the changing needs of municipalities over time.
- There is a lack of information to assess the cost-effectiveness of child care services. Municipally operated day nurseries are almost 50 per cent more expensive than other sources of day care.

## Comments on Ministry and Crown Agency Audits

### BACKGROUND

Day nurseries consist of day care centres, nursery schools, private home day care agencies, and centres for physically and developmentally handicapped children. They are licensed by the Ministry under the Day Nurseries Act and Regulation and must maintain a minimum standard of care. The Ministry ensures that day nurseries comply with the legislation, as well as its policies and guidelines, by issuing annual licences and conducting periodic inspections.

Parents in financial need, who enroll their children in day nurseries, may receive subsidized day care. Approximately one-third of the almost 110,000 children currently enrolled full-time and part-time in licensed day nurseries are either fully or partially subsidized. Roughly one-quarter of the families receiving subsidized child care also receive Family Benefits or General Welfare Assistance. Over 70 per cent of subsidy recipients are one-parent families.

The cost of the subsidy is generally shared 50, 30, and 20 per cent by the federal, provincial and municipal governments, respectively.

The number of licensed day nurseries has increased from 1,650 in 1981 to 2,500 in 1988. These nurseries provide approximately 90,000 full-time licensed spaces.

During the 1989 fiscal year, the Province spent \$255 million on child care services, a 46 per cent increase over the prior year's expenditure of \$174 million. A major portion of the increase of \$81 million was due to the introduction of Direct Operating Grants, totalling \$48 million. The primary purpose of these Grants was to increase day care staff salaries.

In the past few years child care has gained more visibility and importance as the demand for quality and affordable child care increases. In recognizing this demand, the Ministry issued a policy paper in June 1987 called "New Directions For Child Care". This paper outlined the Government's vision for the future of child care as a basic public service and not a welfare service.

### COMMENTARY

#### COMPLIANCE WITH LEGISLATION AND POLICY

##### *Licensing and Inspection*

##### **Deficient Monitoring Practices**

To determine if a day nursery qualifies for a licence, a Program Advisor must ensure that it meets both legislated and Ministry standards. Standard Ministry licensing review procedures are outlined in a Day Nursery Policy Manual.

It includes a comprehensive licensing review checklist, which details about 80 specific statutory items for the Program Advisors to check during the course of their periodic licensing inspections. These items cover facilities, services provided, and books of account and other records of the day nursery being inspected.

Generally, there was evidence on file, such as notes from Program Advisors, that inspections had been conducted. However, we noted that the licensing review checklist was often not used. **In one area office, we found that the checklist had not been used in over 60 per cent of the inspections.** Without the use of

## Community and Social Services

### Children's Services Activity

the checklist, we question how management can ensure inspection procedures set out in the Manual have been carried out.

Furthermore, at one of the three area offices visited, we did not find any evidence that the Program Supervisor had reviewed the licensing checklists or program review notes, as required by Ministry policy. Ministry procedures also require the person signing the day nursery licence to have reviewed the site visit report. In two of the area offices we visited, we found that the area offices had only occasionally adhered to this procedure.

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#### Inappropriate Licences Issued

The granting of an unrestricted licence to a day nursery is intended to assure the public that the operation meets the minimum established standards. When a day nursery operates below these standards, the Ministry may revoke the licence or issue a provisional licence to allow the operator an opportunity to correct the problems. A provisional licence is designed to inform the public of the deficiencies at the day nursery.

We examined 30 files at one area office which issues over 700 licences annually. **We noted that one-third of the licences issued were unrestricted even though the Program Advisor had explicitly identified areas of non-compliance with the legislation** and, accordingly, a provisional licence would have been more appropriate. For example:

- Ministry documents indicated that one centre, with a licensed capacity for 40 children, had operated for 4 years during which time there had been a history of ongoing problems. Problems noted related to insufficient staff, the safe supervision of children, child discipline practices, program content and general style of management. However, we noted that the Ministry had never issued a provisional licence to this centre, leaving the parents uninformed of contraventions of the Act.
- Ministry documentation indicated that for three consecutive years, a centre with a licensed capacity for 120 children was short two trained staff. In a 1987 inspection report, the Program Advisor had also noted other infractions. For instance, contrary to Regulation, six infants ranging in age from 12 months to 18 months, were sleeping in cots as opposed to cribs. However, we noted that the Ministry consistently issued an unrestricted licence to this centre.

Also, we found two cases where covering letters accompanying the licences to problem centres indicated that the Ministry was issuing provisional licences. However, the actual licences issued were unrestricted.

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#### Inadequate Action against Chronic Problem Centres

Ministry policy outlines specific standards for inspection, documentation, and supervisory review of centres that consistently fail to meet the required health and safety standards. The intention of this increased surveillance is to protect the children, to help the operator meet the standards, and failing that, to provide the Ministry with sufficient evidence to support revoking the day nursery's licence.

## Comments on Ministry and Crown Agency Audits

We reviewed the files of 11 of 24 centres that were identified by the area offices as problem centres and noted the following:

- **Eight of these 11 centres had a history of non-compliance with the Act, yet they continued to operate. The period of non-compliance for these centres averaged three years.** Infractions included consistent understaffing, unsafe supervision of children, unsanitary facilities, and substandard meals for children.
- **The files of another of the 11 day care centres, with a licensed capacity for 34 children, indicated a history of serious non-compliance that extended over five years.** We found 11 letters written to the centre between June 1986 and October 1988, in which the Ministry threatened to take further action if conditions at the centre did not improve. However, conditions at the centre continued to remain below standard. We were informed that **the Ministry has only recently taken action to revoke the centre's licence effective August 30, 1989.**

We understand that one area office has subsequently prepared formal procedures to address these deficiencies.

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### *Needs Testing*

#### **Overview**

Persons in need of day care subsidies for their children, other than persons receiving benefits under the Family Benefits Act and the General Welfare Assistance Act, must meet eligibility criteria defined in the Regulation under the Day Nurseries Act. The Ministry has devised a needs test to determine who meets this criteria. However, unlike other social programs, those who pass the needs test cannot automatically receive subsidized day care because child care is neither a mandatory service nor a legislated right. Rather, subsidy for day care is dependent upon the availability of spaces or public funds, or both.

The needs test has recently come under fire and has been termed unfair because it tends to benefit higher income families. As part of its "New Directions for Child Care," the Ministry is planning to replace the current needs test with an income test. Income testing is used by all other provinces.

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#### **Questionable Subsidies Granted**

For persons to be subsidized, the Canada Assistance Plan requires that, in addition to financial hardship, parents must have a need for day care services because they are working, attending school, or undertaking medical treatment. A subsidy may also be granted when child care is recommended by a social agency.

Based on these criteria, homemakers, and unemployed persons and welfare recipients who are not actively looking for work, should not be entitled to subsidized child care. Yet, **we found evidence of subsidies being granted to such ineligible recipients at two of the area offices we visited.** For example:

## Community and Social Services

### Children's Services Activity

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- Over 50 per cent of the nursery school children at one municipality were ineligible for subsidy; of the 62 children being subsidized, 15 had at least one parent who was a full-time homemaker and another 19 whose parents were welfare recipients.

The municipality acknowledged that these children were not eligible for subsidy under the current needs test criteria.

- One centre which provides day care services is also a private school for children in grades one to three. We noted children attending this grade school received subsidized day care for the time spent at lunch, and before and after school. We questioned how parents could be deemed to be in financial need when they could afford to send their children to a private school.

We recommended that the area office Program Supervisors periodically review both internally completed needs tests and those done by municipalities to ensure that the criteria and intent of needs testing are followed.

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#### No Verification of Needs Testing Information

In order to assess financial need, applicants are generally requested to visit a Ministry or municipal office to complete a "Determination of Available Income" form. The applicants are expected to bring along a pay slip, a rent receipt, bank books and other documentation to prove their financial status with respect to income, living expenses and liquid assets. **Ministry policy states that such "information must be verified."** However, none of the offices we visited regularly or systematically checked the accuracy or completeness of the information supplied by the applicants during their needs assessment.

We noted numerous examples where the information on the needs test form was questionable.

- Personal data such as address, telephone number, social insurance number and family composition information were not disclosed in 40 per cent of the cases.
- There were six cases where monthly budgetary expenses claimed exceeded allowable limits. For example, expenses claimed included \$52 per month for cable television, \$60 per month for a telephone and \$400 per month for transportation.
- In another case, both rent and mortgage payments were claimed.

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#### Discretionary Application of the Needs Test

Generally, municipalities administer the needs test and have been granted discretion, within certain limits, in determining upper limits of monthly budgetary needs based on local conditions. **The exercise of this discretion gives rise to some anomalous situations.** For example, in our review of the needs testing in eight municipalities, we found:

## Comments on Ministry and Crown Agency Audits

- Ministry guidelines permit a municipality to set the maximum allowable rent or mortgage payment that is reflective of local costs up to a provincial allowable maximum. Justifiably, one large municipality with the highest real estate and rental costs in the province, set its housing expense limit at the provincial maximum of approximately \$1,200 per month. However, another municipality also used the same maximum for shelter costs. On comparing local conditions in this municipality, we found that the cost of homes, on average, was significantly lower and that the maximum monthly rent for a two-bedroom apartment was only \$600.
- Allowable debt payments ranged from \$100 to an unlimited amount as long as supervisory approval was obtained. We noted instances where monthly payments on recreational vehicles and large credit card debts were allowed as part of the monthly debt payment.
- **The maximum gross annual income level at which an applicant would qualify for subsidy ranged from \$38,000 in one municipality to \$60,000 in three municipalities.** Most municipalities allow each applicant to claim a maximum exemption of 25 per cent of net earnings as a budgetary expense. The Ontario Municipal Social Services Association has recommended the use of a sliding scale to reduce the percentage of exemption on higher income.

As expected, we observed that municipalities, which allowed higher expense limits in determining eligibility for day care subsidy, tended to have longer waiting lists for subsidized spaces. These waiting lists have arisen due to a shortage of subsidized day care spaces and not due to a lack of physical spaces. Our random survey of 20 day care centres in the Toronto area revealed that 75 per cent of the centres had some spaces available.

The major problem with long waiting lists is the possibility that families with urgent needs may not receive subsidized day care. For example, one large municipality with a waiting list of some 4,500 applicants operates on a first-come, first-served basis.

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### SUBSIDY PAYMENTS AND COST-EFFECTIVENESS

#### Overview

Each year's child care operating subsidies are based on the prior year's funding, plus an inflation factor. Expansion funding for new, subsidized day care spaces is regionally allocated on the basis of child population (up to 12 years old).

The Ministry allocates these subsidies to its four regional offices. They then allocate their funds to the 13 area offices to distribute to the child care operations of municipalities, approved corporations and Indian Bands.

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#### Inequitable Distribution of Funds

During our review of the subsidy allocation process we noted the following:

## Community and Social Services

### Children's Services Activity

- Local demographic factors, such as the number of single-parent families or depressed income levels, are not used to determine the allocation of funding and hence the number of subsidized spaces in each local community.
- No two regional offices use the same age limit to define a child for expansion funding purposes. This upper age limit ranged from five years to 12 years of age.
- Other factors such as the municipality's willingness and readiness to implement day care services significantly affect the funding provided.

As a result, **the distribution of child care funding has become inequitable.** For example:

- A municipality in the southeast region received approximately \$19 million in the 1989 fiscal year. This is almost triple the funding of a municipality in the southwest region, despite both municipalities having relatively similar child populations, single-parent families and families with a net income below \$35,000.
- One municipality, containing about 20 per cent of the Province's child population, received over \$79 million, or almost 50 per cent, of the municipal child care operating subsidies in the 1989 fiscal year. Additionally, over the past four years, this municipality has received \$17 million from the Ministry in excess of its approved budgets.

Ministry management has recognized that the availability of subsidized day care spaces across the Province is uneven. They advised us that historically the Government policy was to provide additional resources to child care in response to proposals coming forth from those municipalities who were willing and committed to expanding child care services within their community. They indicated that the current policy, publicly expressed in "New Directions For Child Care," will be to actively encourage the development of child care services across all areas of the Province in three-year planning cycles to ensure orderly growth and realistic timing.

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#### Information Lacking on Control of Costs

By virtue of the Constitution Act and the Canada Assistance Plan, the Province is responsible for child care, and thus, the onus is on the Ministry to ensure child care is provided in a cost-effective manner. Over 60 per cent of the Ministry's annual funds for child care services is allocated to some 80 municipalities in the Province.

The annual cost of providing a day care space is dependent upon a number of factors, such as the age of the child, the length of time and number of days the service is provided. From our discussions with Ministry officials and our audit observations, **we found that the annual subsidy per space ranged from \$2,000 to \$11,000 across municipalities, with the provincial average being \$4,000.** We concluded that, although costs were of concern to the Ministry, information was lacking to assess whether higher subsidy meant better quality of care or just a lack of commitment to controlling costs.

## Comments on Ministry and Crown Agency Audits

Municipalities deliver child care through directly operated day nurseries and through purchase of service agreements with non-profit and commercial day care centres or private home day care agencies. **We noted that municipally operated day care centres were more costly than other sources of child care. They are, on average, almost 50 per cent more expensive than either purchase of service or private home day care.**

We also noted instances of unnecessary or unreasonable municipal costs.

- Day care advisors at one municipality are paid an average of \$8,000 more per year than Ministry advisors. Both groups inspect day care centres but Ministry advisors have the added responsibility of recommending approval or refusal to issue a Day Nursery licence.
- In one area office, we noted that of the almost 700 licensed centres, over 500 centres were inspected by both the Ministry and the municipality.
- The Ministry reimburses 80 per cent of the administrative cost to municipalities for administering the needs test. In all three area offices we visited, we found instances of welfare recipients being needlessly tested.

As mentioned previously, there is a backlog of families awaiting subsidized day care although there are spaces available in day care centres. The problem is that there are insufficient funds to provide subsidies for these spaces. Therefore, if the Ministry could identify and verify areas where unnecessary costs are being incurred, this would enable more subsidized spaces to be funded.

### RESPONSE

The Deputy Minister replied to our findings on August 31, 1989.

#### GENERAL

*"The Ministry is extremely concerned with the final report submitted by the Provincial Auditor. It is not that we disagree with those findings which clearly point to needed improvement in the areas of licensing and compliance with legislation and guidelines. The auditor, in many cases, reflected concerns this Ministry had already identified and was in the process of rectifying.*

*"However, the audit report fails to recognize the government's stated policy directions for the child care service system in the Province of Ontario.*

*"The report raises negative findings in areas where practices are well within existing policy.*

*"The Ministry feels it is inappropriate to report activities which are within the present policy framework in a manner which suggests some failure in the management of the system.*

*"The substantive shift in government policy directions is clearly articulated in the following extract from 'New Directions for Child Care' announced in July 1987.*

## Community and Social Services

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*The cornerstone of this new vision for child care rests upon the following set of guiding principles:*

- . All families must have reasonable access to a range of appropriate services;*
- . Services must respond to individual, cultural and regional needs;*
- . Programs must be of high quality and must support children's health, safety and development;*
- . Parents must have enough information and assistance to make informed choices;*
- . Community groups must work in partnership to ensure that local programs for children are co-ordinated;*
- . Employment leaves and benefits must be flexible enough to enable working parents to meet their family responsibilities; and*
- . Child care must be affordable.'*

*"Our response to the need for a more comprehensive program is demonstrated by a comparison of historical distribution of funds within child care with current year estimates. For example, in 1985, subsidy comprised 80 per cent of total child care funding and, in 1989, despite more than doubling of the subsidy line, the proportion has fallen to 57 per cent of our total estimated child care expenditures.*

*"(In summary), the Ministry has acted and will continue to plan and implement both consolidation and expansion activities in the broad child care service delivery system, a system which is much larger and more complex than the three selective elements reviewed by the auditor.*

*"The issue of context (the new policy direction, major change in the delivery system and rapid growth) is vital to a balanced report and its absence lessens the effectiveness of this particular report to provide useful constructive criticism to a system which would gladly welcome such."*

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#### COMPLIANCE WITH LEGISLATION AND POLICY

##### Licensing and Inspection

*"The Ministry had already recognized that enforcement practices have failed to keep pace with the rapid growth and services developed over the last several years. The system has doubled in the past ten years with a growth of approximately 500 centres. The review of our enforcement practices announced in the first phase of 'New Directions' and now in process is a direct result of our concern. As part of this ongoing review, the following operational decisions were communicated to child care field staff with an effective date of July 13, 1989:*

- . checklists are to be used for every inspection;*
- . the effective date of licensing will be consistent across the province;*

## Comments on Ministry and Crown Agency Audits

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- *time to comply after an inspection is limited to two weeks;*
- *provisional licences are issued for a three-month period only;*
- *standardization of Director Discretion;*
- *distribution of the Day Nursery Manual at the time of licensing; and*
- *the Ministry will log complaints and follow-ups.*

*"The review is on schedule, and the final report is expected this fall. It is anticipated that this report will contain further recommendations to assist the Ministry in maintaining services, as well as carrying out its legislated responsibility for licensing and enforcement."*

*"The Ministry disagrees with (the finding regarding 'Inadequate Action against Chronic Problem Centres'). Area office practise is to closely monitor programs that have several areas of non-compliance.*

*"However, the documentation to support the serving of a notice to revoke or refusal to reissue a licence takes several months to collect. With respect to the centre (with a five-year history of non-compliance), documentation to support the action was being collected at the time of the audit. On July 4, 1989, the Ministry obtained, on consent, an Order for Closure. The centre will close on August 30, 1989.*

*"This matter is also included in the Enforcement Practices Review and further recommendations, if required, will be included to deal more effectively with chronic infractions."*

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### Needs Testing

#### **Questionable Subsidies Granted**

*"The finding that ineligible families are receiving subsidy is of concern to the Ministry. This is contrary to our directives that needs testing is a requirement for access to subsidy for all families. In the case of the example noted, while the audit was in progress the Area office followed up with the municipality. They determined that all the children had been needs tested, however, no documentation was on file of their referral for social need. Corrective action was taken immediately and the documentation included on the file."*

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#### **No Verification of Needs Testing Information**

*"In regards to needs testing procedures, the Ministry points out that many of the examples used could be justified if put in context. . . . All three municipalities do a visual verification of pay stubs and receipts. The auditors found that some failed to note verification of the information supplied. The Ministry agrees that periodic review of completed needs test would enhance accountability, and will develop guidelines to accomplish this goal."*

## Community and Social Services

### Children's Services Activity

#### **Discretionary Application of the Needs Test**

*"In reporting this finding the auditor is passing a judgement on existing approved policy. The Province of Ontario receives federal cost sharing under the Canada Assistance Plan and needs testing is a federal requirement. The guidelines that the Province has developed for needs testing are in accord with the Federal Guidelines.*

*"The report criticizes the needs test indicating it 'has been termed unfair because it tends to benefit higher income families.' The needs test is used to determine eligibility for some degree of subsidy towards the cost of child care. Further, the report gives the impression that the Ministry is moving toward an income test in order to restrict the eligibility range of families to receive subsidy. As stated in 'New Directions', the Ministry hopes it 'can allow partial subsidies for lower middle-income families' and is looking for a simpler less intrusive system for eligibility screening.*

*"It would appear from the commentary that the auditors have developed a position that child care subsidy should be available only to the poor and, prioritized essentially for the working poor. This is not the government policy. Our policy is that families who are determined eligible under the guidelines have access to subsidy based on local discretion regarding service priorities. It is not unreasonable that in some instances families with a gross income up to \$60,000 may require financial assistance with child care costs.*

*"The following statistics demonstrate that municipalities and areas offices are exercising discretion appropriately. They were gathered from municipal files and are based on net income levels as of December 1987. Families with the lowest income and greatest need i.e. single parents received the largest proportion of the subsidy.*

- The net annual income of 21,847 families, or close to 80 per cent of all subsidized families, was less than \$20,000. Of these 18,418 families (84.3 per cent) were headed by single parents with one child or more.*
- 4,838 families, or approximately 17 per cent, showed a net income of between \$20,000 and \$29,999.*
- 1,403 families, or under 5 per cent, showed a net income between \$30,000 and \$49,999.*
- No families receiving subsidy had a net income in excess of \$50,000.*

*"The report correctly points out that municipalities have discretion to apply needs testing guidelines based on local conditions. This flexibility is warranted and desirable. The municipalities have the responsibility to administer the program in their own particular community and are contributors to the funding of the service. The flexible application of the guidelines by individual municipalities results in differences that are reflective of the demographics, financial and political aspects of each community, rather than the inconsistent administrative procedures that the report infers."*

## Comments on Ministry and Crown Agency Audits

### SUBSIDY PAYMENTS AND COST-EFFECTIVENESS

#### ***Inequitable Distribution of Funds***

*"The text of the report in this section is not consistent with the text in the conclusions and findings. In the text it is acknowledged that the current distribution of child care subsidy funding is reflective of historical patterns of development by municipalities. The Ministry had demonstrated to the auditors as part of the audit process that concrete actions have been taken over the last several years to improve equity of access across the province. Steps taken by this Ministry include increased local planning, allotment strategies using demographic information and community services needs studies. The auditors findings give no recognition of these strategies."*

#### ***Information Lacking on Control of Costs***

*"Cost-effectiveness is of serious concern to the Ministry. The licensed child care system provides service to over 100,100 children, of whom approximately 45,000 are from families who have been needs tested and deemed eligible for subsidy. The mode of service delivery varies greatly, and the children range in age from infancy to age 12. As a result, one can expect a range of costs for different units of service which are used to claim funding. The Ministry takes the responsibility of cost control seriously. For example, in regard to the largest municipality examined by the auditor, the Area Office has informed them that their allocation is fixed. Where rate increases have been given without prior Ministry approval it is the responsibility of that Municipal Council to fund the difference at 100 per cent. Over-expenditures above approved levels have been, and will be, recovered. Expansion of directly operated centres has been frozen."*

*"The Ministry acknowledges that the cost of child care is much higher in municipally directly operated centres. Child care is a staff intensive service and salary costs are generally 70 to 80 per cent of total expenditures."*

*"It is important to understand that the differences in cost per space can largely be attributed to higher salaries having been negotiated for municipal employees compared to those paid by small community centres. The Ministry expects that the gap will narrow with recent initiatives, such as the Direct Operating Grant, to improve salary levels of child care workers."*

*"The Ministry concurs with the findings that there is a duplication of inspection efforts. One Area Office has not approved the addition of 6 inspectors and as a consequence the municipality is now funding the positions at 100 per cent. The degree of duplication is also being explored in the Enforcement Practices Review. A recommendation concerning future action is expected as part of the final report in November. The subject of delegation of licensing responsibilities to municipalities is already being considered in concert with the Provincial Municipal Social Services Review report due this fall."*

*"In the interest of good management and in accordance with the Canada Assistance Plan requirement, the Ministry believes that all applicants should be needs tested. For those on social assistance abbreviated information should be taken."*

## Community and Social Services

### Children's Aid Societies

#### CONCLUSION

*"The Ministry would like to summarize the actions taken to date and those to be initiated in regards to the elements of the report.*

#### COMPLIANCE WITH LEGISLATION AND POLICY:

- *Interim actions have been taken to improve enforcement practices.*
- *Further changes will be instituted as a result of the final report of the review of enforcement practices.*
- *The Ministry will institute periodic reviews of needs test to ensure that guidelines are followed and verification is documented.*
- *Procedures will be developed to eradicate the practice of centre staff administering the needs test.*

#### SUBSIDY PAYMENTS AND COST EFFECTIVENESS:

- *The duplication of inspection efforts is a part of the enforcement review and a recommendation is expected as part of the final report.*

*"In summary, this Ministry will continue our management initiatives to ensure effective management of child care in this period of continuing massive growth and change."*

#### 3.4 Matters of Concern, Children's Aid Societies, Ministry of Community and Social Services

Under the Children's Services Activity, the Ministry provides grants to Children's Aid Societies for the care and protection of children. In the 1989 fiscal year, the Ministry paid \$230 million to 54 Children's Aid Societies.

#### SUMMARY

#### SCOPE AND OBJECTIVES

We conducted audit work at two large Societies - the Catholic Children's Aid Society of Metropolitan Toronto and the Children's Aid Society of Ottawa-Carleton. Together, these Societies spent approximately 25 per cent of the total program expenditure (\$60 million) in the 1989 fiscal year. We also conducted work at the Ministry's head office and at two area offices.

We assessed whether:

- the two Societies were complying with the Child and Family Services Act and Regulations; and
- the Ministry monitored the cost-effectiveness of the Children's Aid Societies.

## Comments on Ministry and Crown Agency Audits

### CONCLUSIONS AND FINDINGS

#### *COMPLIANCE WITH CHILD AND FAMILY SERVICES ACT AND REGULATIONS*

These Societies have not met various requirements of the Child and Family Services Act and Regulations. Therefore, we questioned whether the Act's primary objective of promoting the best interests, protection and well-being of children was being met.

- . Efforts to recruit and support foster parents were inadequate.
- . Up to 25 per cent of children requiring residential care were placed in facilities other than those considered most suitable for meeting their developmental needs.
- . Ministry reviews of children in the permanent care of Societies (Crown wards) indicated that often children were not receiving the required level of care.

#### *COST-EFFECTIVENESS*

The Ministry does not know whether Children's Aid Societies are providing cost-effective services. Specifically:

- . The funding methods did little to encourage Societies to operate in a cost-conscious manner.
- . Over 50 per cent of Society expenditures were on salaries, yet the Ministry had little reliable information on comparative caseloads, administrative and clerical staff levels, and relative salary levels.
- . The Ministry provided no leadership in co-ordinating computer development to avoid duplication of cost and effort among Children's Aid Societies.

### BACKGROUND

Children's Aid Societies are non-profit agencies licensed by the Ministry under the Child and Family Services Act, 1984. They are responsible for the protection and care of children under 18 years of age. Each Society is managed by a board of directors consisting of municipal representatives and residents of the local community. The Societies provide:

- . temporary or permanent guardianship to children separated from their parents;
- . alternative care for children through foster homes, group homes, institutions or adoption; and
- . guidance and counselling to families in their own homes where there is the risk of children being neglected or abused.

Children admitted to the Societies' care are placed in foster or group homes or in institutions. Currently, there are about 10,000 children in such facilities.

## Community and Social Services

### Children's Aid Societies

In a foster home, a child receives care from adults who are not the child's natural parents. A foster home can have no more than four unrelated foster children at one time.

A group home provides care for up to nine children, usually close together in age. A group home may or may not be owned by the care providers and may have house parents or may be entirely staffed by rotating child care workers.

An institution, usually privately owned and staffed, provides care for at least nine children. It may also provide specialized resources such as psychiatrists, nursing staff and special educators.

The costs of operating Children's Aid Societies are shared 50 per cent by the Federal Government, 30 per cent by the Ontario Government and 20 per cent by Municipal Governments.

The Ministry monitors the operations of Children's Aid Societies through four regional and 13 area offices. In addition, several support branches at the head office in Toronto develop policies and procedures for the program.

#### COMMENTARY

#### COMPLIANCE WITH CHILD AND FAMILY SERVICES ACT AND REGULATIONS

#### **Foster Parent Recruitment and Support Inadequate**

##### *Overview*

Foster homes provide a family-like setting for a child. They are less expensive than other forms of residential care such as private group homes and institutions. Therefore, Children's Aid Societies usually consider foster care the best alternative, particularly for infants and younger children.

Almost 6,000 of the 10,000 children in the care of Children's Aid Societies are in foster homes. There are currently some 10,000 foster home beds available across the Province. However, the larger cities are experiencing a critical shortage of beds and consequently have had to place children with the more costly private group homes or institutions.

##### *Little Effort Made to Recruit Foster Parents*

Foster parents have indicated that low per diem rates, which currently range from \$8 to \$24 per day in Ontario, are not sufficient to cover the cost of looking after a foster child. In some cases, foster parents have left the foster care system to work for institutions which, on average, receive \$60 per day for providing foster care.

Additionally, the increasing number of women entering the work force and the growing number of problem children have made it difficult to attract foster parents. **Regulations require Societies to develop and maintain procedures for the recruitment of foster parents.** Nevertheless, **neither the Ministry nor the Children's Aid Societies we visited have made serious efforts to recruit foster parents.** We noted that the Ottawa-Carleton Children's Aid Society has had no recruitment program for at least three years.

## Comments on Ministry and Crown Agency Audits

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### *Foster Parents Need More Support*

Regulations require Societies to provide support to foster parents. Such support can take the form of training, recognition, feedback on performance and emotional support from Society workers.

**Foster parents indicated that in addition to low per diem rates, they were leaving the foster care system because of inadequate support from the Societies. For example, in a 1987 survey by the Ottawa-Carleton Children's Aid Society, 45 per cent of the Society's social workers acknowledged that they had failed to provide regular support to foster parents.**

Children's Aid Societies are also required by Regulations to perform an annual evaluation of foster homes. In addition to ensuring that living conditions are up to standard and a child's needs are continuously met, such evaluations serve to answer any questions that foster parents may have about a child. **At the two Children's Aid Societies we visited, almost half of the approximately 500 homes had not been evaluated annually.**

The Ministry has been aware of problems in the foster care system for some time. A report entitled "The Future of Foster Care" was released in January 1988 through the efforts of the Ontario Association of Children's Aid Societies and the Foster Parent Association of Ontario. The report recommended the collaboration of the Ministry, foster parents and Children's Aid Societies in the development of a strategic plan to redesign the foster care system. The Ministry advised us that such collaboration has been ongoing over the past year. Furthermore, in May 1989, the Ministry announced that it was committing an additional \$6.7 million for the 1990 fiscal year to strengthen foster care services.

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### **Inappropriate Placement of Children**

The Child and Family Services Act recognizes the need for Societies to provide children with appropriate care and development such as a good parent would provide to his or her own child. Accordingly, the Ministry has established guidelines for Societies to use in choosing the most appropriate type of care for children. However, **a shortage of residences has forced many Societies to place children in residences other than the ones considered most suitable.**

The Societies' definition of inappropriate placements includes residences that are overcrowded, those intended for children of a different age or sex group, or those far away from a child's own community. Placements that result in the splitting up of siblings or in the delaying of urgently needed treatment to a child are also considered inappropriate. An inappropriate placement can adversely affect the well-being and development of a child.

**The Ministry did not have statistics on the number of inappropriate placements. However, our work at the two large Children's Aid Societies showed that this problem was critical. The Catholic Children's Aid Society of Metropolitan Toronto reported that about 25 per cent of its children were inappropriately placed due to a shortage of residences. For example:**

## Community and Social Services

### Children's Aid Societies

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- In 1988, 14 children who should have received immediate mental health treatment (e.g. for suicidal tendencies, possible psychosis etc.) had to be placed in temporary facilities.

Also, 15 per cent of the 425 placements in 1987 ended up staying in these temporary facilities for over three months. According to the Societies, the length of stay in temporary residence should be no longer than six weeks.

- On two occasions, a child at a group home was sexually abused by older children. We were told that the older children should have been placed in a residence for a different age group but none was available.
- Of 87 sibling groups placed in 1987, 15 had to be split up.

**The Ottawa-Carleton Children's Aid Society reported similar problems. In addition, it reported that over 25 per cent of the children placed in institutions were outside of their home community, some as far away as 600 kilometers from home.**

Another result of inappropriate placement can be frequent transfers of children between residences. The lack of a stable home environment can worsen a child's existing emotional and behavioral problems.

**We reviewed transfers of children at the Catholic Children's Aid Society of Metropolitan Toronto over a six-month period in 1988. Forty-seven per cent of children moved to another residence were transferred as a result of improper matching of the children with foster parents, behavioral difficulties, etc. The Ministry also reported that, on average, children were moved three times every five years. The figure for teenage children was much higher. The Societies we visited estimated that it was usual for teenage children to be transferred seven or eight times over a five-year period.**

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### Findings Reported by Ministry Crown Ward Reviews

#### *Overview*

Approximately 4,500 of the 10,000 children in care are Crown wards. The remaining children usually come under the Society's care through a temporary court order, or a voluntary agreement with the child's parents.

To ensure adequate protection and care of a child, Regulations under the Child and Family Services Act set out certain minimum requirements that the Society must meet. These include periodic visits by social workers, regular review of the child's plan of care, an annual medical and dental examination and reviews by social worker supervisors.

The Act requires the Ministry to monitor whether Children's Aid Societies are following these requirements. The Ministry's Crown Ward Review Unit conducts a review every 24 months of each child placed under permanent Society care (Crown ward) by a court order.

## Comments on Ministry and Crown Agency Audits

### *Non-compliance with Legislation*

At the two Societies we visited, the Ministry had examined 270 Crown ward files in 1988. **The Ministry reported a significant number of cases where the two Societies had not followed the legislation.** It found that:

- Approximately 20 per cent of the Crown wards had not been visited every three months by social workers as required.
- Over 60 per cent did not have an up-to-date plan of care. In one Society, the plan of care for 27 per cent of the Crown wards had not been updated for one to three years. The plans were completed only as a result of visits from the Ministry's staff.
- Almost 35 per cent of the Crown wards had not received annual medical and dental examinations. In one example, a child's doctor had been concerned about the child's eye sight. Eight months later, there was no record of any eye examination.
- About 200, or over 70 per cent, of the Crown ward files contained no evidence that a supervisor had reviewed the work of social workers.

**Our review of Ministry reports from previous years showed that these conditions had persisted for several years in other Children's Aid Societies as well.**

We were advised by the two Societies that occasionally their staff may have done the work but neglected to update the files.

### **Non-Crown Ward Reviews by Ministry Needed**

There are 5,500 non-Crown wards in the care of Children's Aid Societies. The legislative requirements for Crown wards such as periodic visits by social workers, review of children's plan of care, medical and dental examinations, etc. also apply to these children. However, the Act does not specifically require the Ministry to monitor compliance with these requirements by Societies. Therefore, the Ministry has limited its review of children's files to Crown wards only.

In view of a significant number of violations reported by the Ministry's Crown Ward Review Unit, we recommended that the Ministry also periodically review non-Crown ward files.

### *COST-EFFECTIVENESS*

#### **Funding Policy Warrants Review**

The Ministry provides funding annually to Children's Aid Societies based upon their prior year's budget plus an across-the-board percentage increase to cover inflation. For example, in the 1988 fiscal year this increase was 4.5 per cent. Funding for new programs and capital expenditures is provided separately.

## Community and Social Services

### Children's Aid Societies

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At the end of a fiscal year, a Society may request additional funds to cover unexpected cost increases. Such increases are given only after an Exceptional Circumstances Review has been completed by the Ministry and the increases approved by Management Board.

**At present the Ministry has little reliable information available to determine if any Societies are over-funded. However, from what information is available, inequities likely exist within the present system.** For instance, the Durham Children's Aid Society relies heavily on the services of private institutions. In 1987, it had about 200 children under its care and an expenditure of \$7 million. By comparison, the Peel Children's Aid Society had 70 per cent more children, yet its expenditure of \$10 million was only 40 per cent higher than that of Durham.

**The present funding methods do little to encourage Societies to operate in a cost-conscious manner.** For instance, Societies are funded regardless of whether they place children in a foster home, a group home or an institution. It is generally acknowledged that foster homes best meet the developmental needs of most children and are also more cost-effective. The average daily foster care rate is \$20 compared to \$60 for a group home or institution.

**Additionally, Societies which rely heavily on private group homes and institutions may be forced to continue using such services even if rates go up substantially. For example, we noted that one institution increased its daily rate from \$51 to \$93, or 80 per cent, during 1988.**

We also observed that the Ottawa-Carleton Children's Aid Society operated 23 staff-run residences. Such residences may provide better care to a child but they are more expensive than private institutions. They cost an average of \$60 a day more than private institutions. The Society informed us that it is committed to reducing reliance on staff residences and to recruiting more foster parents.

The Ministry has initiated a Child Welfare Funding Project Task Force to review these issues.

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#### Better Management Information Needed

As Children's Aid Societies are almost entirely funded by taxpayers, we believe the Ministry has an obligation to ensure that funds are spent prudently and that a relatively consistent level of service is delivered across the Province.

The Ministry maintains financial control over Children's Aid Societies to ensure that the Societies' spending stays within the approved budget. Expenditures that exceed the budget are subject to an Exceptional Circumstances Review to determine if they should be funded.

However, **the Ministry does not require Societies to submit financial and operational information in a uniform manner. Standardized reporting would allow the Ministry to assess service delivery levels and cost-effectiveness. Without such information, the Ministry cannot adequately monitor the operations of the Societies. For example:**

## Comments on Ministry and Crown Agency Audits

- Over 50 per cent of the \$230 million paid to Societies in the 1989 fiscal year were for social workers' salaries and benefits. The Societies periodically report to the Ministry the number of cases handled by their workers. However, we found that each Children's Aid Society had its own way of measuring caseloads, staff to management ratios, social workers to clerical staff ratios, etc.

**Due to lack of uniformity in reporting, the Ministry could not use the information to determine the comparability nor the reasonableness of social worker staffing levels among the Children's Aid Societies.**

- The Ministry requires Children's Aid Societies to report cost information by type of service, e.g. foster care, family counselling services, etc. However, we noted that many of the reporting systems within the Societies were not capable of providing this information. Consequently, the Societies provided estimates.

Five of the larger Societies are embarking on a project to design uniform reports. We understand that the Ministry has also started to develop a new data reporting system.

We recommended that these efforts be co-ordinated. This would ensure that the Ministry receives the information it needs to monitor the cost-effectiveness of each Society's operations.

### Ministry Leadership in Computer Development Needed

In February 1986, the Ministry published an "Information Technology Strategic Plan" to be implemented over five years. In the Plan, the Ministry recognized that it was dependent on service providers, including Children's Aid Societies, for the information needed for planning, monitoring and trend analysis. It identified a need for co-ordination of computer development activities between the Ministry and the Societies.

Children's Aid Societies individually do not have the resources necessary to co-ordinate computer systems development. They also welcome central co-ordination and support from the Ministry. For instance, in January 1987, the Ottawa-Carleton Children's Aid Society presented a brief to the Minister of Community and Social Services. It supported increased leadership from the Ministry in the development of common data banks, information systems and computer technology.

Later in 1987, the Ministry issued a booklet entitled "The Challenge of Using Information Technology in Social Services - For Agencies." In the booklet, the Ministry indicated that for agencies which were just beginning to automate, the Ministry's Agency Automation Support Unit could suggest methods to assess information needs and to select suitable hardware and software.

**To date, any advice from the Ministry to Societies has been on an "as requested" basis. The Ministry has provided no leadership in co-ordinating computer development efforts by Children's Aid Societies.**

## Community and Social Services

### Children's Aid Societies

Many of the Societies have now either developed, or are developing, their own computer systems. While the Ministry agreed there is duplication of cost and effort, it has not requested information from the Societies which would enable it to assess how much money has been spent on computer development.

Our review of computer development in two large Societies showed that:

- The Catholic Children's Aid Society of Metropolitan Toronto proposes to spend approximately \$3.9 million over the next five years in development costs for its existing system.
- The original plan of the Ottawa-Carleton Children's Aid Society was to adopt the case management software used by the Catholic Children's Aid Society of Metropolitan Toronto. Accordingly, the Society, with the approval of the Ministry, purchased a computer package in October 1987 for approximately \$250,000.

The Society subsequently discovered that the computer's disk capacity was insufficient to accommodate both its accounting and case management systems. The computer was hardly used. In November 1988, the Society entered into a 48-month lease for a more expensive computer at a cost of about \$6,500 per month. Approximately \$115,000 in hardware from the original computer package was traded in for \$11,000.

The Ottawa-Carleton Children's Aid Society further indicated that it will need \$2.5 million over the next five years to develop its new computer system.

While the intent of the February 1986 Information Technology Strategic Plan was well-founded, there was little evidence that the Ministry was taking the required actions.

#### RESPONSE

The Ministry responded on August 24, 1989.

#### INTRODUCTION

*"This Ministry clearly has a responsibility to work with municipalities, community boards and the Ontario Association of Children's Aid Societies to establish provincial standards against which they can monitor their performance and report to the Ministry. The development and application of standards and indicators, in a collaborative fashion, takes time and indeed the Audit refers to a number of these activities that the Ministry has underway."*

*"While recognizing the need for continued improvement, we believe that the Child Welfare system in this province is strong and viable. Working in tandem with the Children's Aid Societies, community groups and related government bodies we will continue to provide and enhance services in the best interests of children."*

## Comments on Ministry and Crown Agency Audits

### COMPLIANCE WITH CHILD AND FAMILY SERVICES ACT AND REGULATIONS

#### **Foster Parent Recruitment and Support Inadequate**

*"The responsibilities and roles of foster parents have become increasingly complex and the framework for compensation, training and support has been under review over the past number of years.*

*"The kind of collaboration with Children's Aid Societies and foster parents suggested in the report has in fact been ongoing over the past year. The most tangible, but certainly not the last outcome of this collaboration, was the Minister's May 24th announcement of additional funding to support family based residential care in societies.*

*"The initiative includes:*

- . Commitment of \$6.7 million for the fiscal year 89/90. With municipal contribution, effective January 1990, the total exceeds \$8 million.*
- . A minimum floor rate of \$14.00 per day is established for every foster parent. Reimbursable items and subsidies for special classification is in addition to this rate.*
- . Approximately \$2.5 million of the total funds will go toward enhanced staff support.*
- . \$550,000 has been identified for training and innovative demonstration projects.*

*"This step, while an important demonstration of the Ministry's commitment to foster care, is part of a comprehensive strategy which will encourage and build on several creative initiatives already underway in the Ministry and the broader system of children's service agencies.*

- . The policy division of this Ministry has been working for the past year with a multi-agency Task Force developing a policy framework for residential family resources with community consultation planned for 1990.*
- . The Children's Services and Communications Branches are currently developing a recruitment strategy with the Ontario Association of Children's Aid Societies and \$250,000 has been committed to the provincial association to develop a foster parent and society worker training curriculum.*

*"We will continue to work with community agencies and foster parents in strengthening the network of appropriate and accessible supports to children and families.*

*"The comments about the lack of societies' commitment to foster parent recruitment needs clarification. Ottawa has always had a recruitment program and up until last year had one position dedicated to this. In 1988, pressures related to establishment of rates and support to existing foster parents took priority."*

## Community and Social Services

### Children's Aid Societies

#### ***Inappropriate Placement of Children***

*"We must first qualify the findings under this section, as the determination of 'inappropriate placement' is being made by the societies and has not been substantiated against objective or consistent criteria.*

*"This would perhaps change the perception of the degree rather than the nature of the problem. The Ministry has recognized the need for societies to sometimes place children in resources that are less than ideal or transfer children from one placement to another.*

*"To improve this situation there must be not only better assessment capacity but the effective co-ordination of local resources that match those needs. The specific combination of economic and socio-demographic factors presented in Metro Toronto and Ottawa-Carleton have made this particularly problematic and findings should not be generalized. To address this issue the Ministry has been active in trying to work with the total children's services system in order to improve the delivery system's capacity.*

- The Ministry/OACAS initiatives in the redevelopment of foster care are intended to increase the capacity of foster homes to maintain more difficult children locally and reduce the number of times children must be moved to more structured placements.*
- The Ottawa-Carleton society has developed its own internally operated homes in response to the lack of externally operated programs. An eight bed residence was opened in 1988 and the Area Office will continue to promote the development of additional Francophone resources to reduce the need for distant placements.*
- In Metro Toronto in the past three years 90 additional group home beds have been created to keep children closer to home. Since June 1986, a multi agency children's residential task force has been operating in Toronto developing specific strategies related to placement difficulties.*
- In several parts of the province Ministry Area Offices are holding ongoing meetings with their Children's Aid Societies. Major areas of concern have been identified and working groups established to study and propose solutions.*
- Many Areas have established 'Hard to Serve Committees' to provide case management support in those situations where there are problems in matching children's needs to appropriate placements and to make recommendations toward more effective management of the local system.*

*"The Ministry has in recent years implemented placement review and inter-agency, services planning processes and allocated significant funding increases to reduce the frequency of the kinds of placement difficulties outlined in the report.*

- Legislated Residential Placement Advisory Boards review all placements of children in institutions to determine if the placement is appropriate and the least intrusive of available alternatives. Reports indicating inappropriate placements are reviewed with the society by the program supervisor.*

## Comments on Ministry and Crown Agency Audits

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*The allocation of an additional \$24 million in Child Treatment and Intervention Services from 1987 to 1990 is having a positive impact on the quality and accessibility of services expansion and enrichments.*

*"The audit report identifies some specific placement problems experienced in Metropolitan Toronto and we are actively seeking the assistance from our community service delivery system in the resolution of these issues.*

*"The three Metro societies have developed a joint proposal for an enhanced foster care program intended to reduce the number of children's moves by providing more support to foster parents during the critical first weeks and months after admission. Increased resources at this stage will, we believe, result in more children returning home earlier and more appropriate and stable placements for those who require longer term care.*

*"The Ministry is encouraging this kind of collaboration and specialized service development and believes that joint implementation and ownership of these kinds of strategies will improve services in both the short and long term."*

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### Findings Reported by Ministry Crown Ward Reviews

*"There is no question that the Ministry has to work more closely with Society Boards of Directors and their staff in improving the compliance rate for legislated activities. The Ministry's Area Offices currently receive copies of the Crown Ward Review report and monitor the society's workplan for carrying out the directives.*

*"We will be reviewing this issue with the Provincial Association of Children's Aid Societies, clarifying the Ministry's expectations and strengthening mechanisms for monitoring compliance with regulations."*

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### Non-Crown Ward Reviews by Ministry Needed

*"Reviews are now periodically done by program supervisors as part of their responsibility to supervise and inspect and as part of the foster care licensing process.*

*"A decision to expand this review process requires further consideration. We would prefer to work on a more formal basis with Provincial Associations and boards of the societies in the development of accreditation standards, as well as peer review and internal case audit mechanisms.*

*"We are supporting the Ontario Association of Children's Aid Societies in its development of standards and understand that in 1989/90 they are designing an accreditation process for societies.*

*"The assignment of more Ministry staff to inspect society files may not be the most effective way to encourage responsibility and ownership on the part of society boards.*

## Community and Social Services

### Children's Aid Societies

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*"Under an accreditation model, as appropriate mechanisms are put in place, the societies would report on the results of their audits and the measures they are taking to address non-compliance. The Ministry would be reviewing the quality of the society board's review process and seeing that appropriate steps are taken to ensure compliance."*

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#### COST-EFFECTIVENESS

##### **Funding Policy Warrants Review**

*"One of the significant, complicating factors in Child Welfare funding is the mandated nature of the protection and in-care components of the societies' work. In most social service programs, budgets can be established based on agreed upon levels of service and clients who cannot be admitted go on a waiting list. Any increases in budget are negotiated at the beginning of the year and reflect an increase in the Ministry's allotment through the provincial budget process."*

*"While the Child Welfare base budget line is established, the Ministry with the support of Management Board provides a process, the Exceptional Circumstance Review, through which additional funds may be approved to pay costs for increased volume in protection and in-care services. This 'safety net' has been available as an after the fact payment based on actual, in year expenditures that could not be avoided."*

*"We recognize the need for increased direction and consistency related to Service Plan negotiations and monitoring. Service Planning is still in the developmental stages and this sector is continually consulted on refinements. Administration of this process, as the report suggests, requires quality databases on services and resources which we are implementing."*

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##### **Better Management Information Needed**

*"The Ministry agrees that sound information is necessary respecting services provided by agencies and resources used by them. This was clearly identified in the Information Technology Strategic Plan in 1986. The audit correctly points out that there are serious issues surrounding uniformity and consistency in data received from agencies."*

*"The Ministry believes that data collected should reflect the underlying business processes which govern relationships between the Ministry and its funded agencies."*

*"Service Planning is the process the Ministry has put in place to govern the resource allocation process and information needs supporting that process have been identified and refined through internal and external consultation."*

*"Three major actions already underway, demonstrate that the Ministry has already identified the issues raised in the Audit Report and fully intends to aggressively address them."*

- 1) Based on the consultation process noted above, a Services and Resources system and database has been developed to encompass all children's

## Comments on Ministry and Crown Agency Audits

*agencies (including Children's Aid Societies). Implementation planning is currently under discussion.*

- 2) *A Ministry/Association Advisory Committee, composed of agency sector representatives and the Ministry is currently functioning, and is a key element in addressing the issues around service planning and services and resources data.*
- 3) *Recognizing the diversity in size, mandate and management style of children's agencies, and the resultant impact on the consistency and integrity of the data submitted, the Ministry contracted with Peat, Marwick, Medicus consultants in the fall of 1988 to carry out an Agency Impact Study.*

*"The study was to:*

- . Assess the state of readiness within the children's agencies to provide Services and Resources data; and*
- . Recommend realistic and effective strategies to ensure progress in implementation.*

*"The consultants' report has now been received and Ministry Senior Management will be addressing findings and recommendations in September. On the basis of this report and other activities underway the Ministry will finalize an action plan to ensure the availability of services and resources data."*

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### Ministry Leadership in Computer Development Needed

*"We do not accept this general finding and, as is the case under a number of sections, find that the report has not recognized developmental work in process.*

*"We are pleased that the report identifies the strategies in the 1986 Information Technology Strategic Plan dealing with agencies and that you consider them to be appropriate. Two strategic directions were put forward.*

*"The first involved establishing a no charge source of expert advice and training on information systems and computer technology. This has been done and has been very successful.*

*"The second direction involved the establishment of a coordinated planning approach supported by an incentive fund. Ministry management supports the concept underlying this strategy and an assessment of agencies' automation needs was conducted two years ago. We intend to update this assessment during 1990/91. To date resources have not been available to establish an incentive fund but the Ministry will consider this requirement again in the context of other funding pressures.*

*"With regard to the specific references in the report we must challenge the presentation of facts related to the purchase of equipment and software in the Ottawa society. Details are contained in correspondence referenced at our June 29th meeting and files that were made available by the Area Office indicating that the society was not pressured to purchase inadequate equipment and that the appropriateness of the current system is still in dispute."*

## Correctional Services

### Community Services Activity

#### 3.5 Impediments to Probation Enforcement and Effective Rehabilitation, Community Services Activity, Ministry of Correctional Services

The Ministry's Community Services Activity includes the provision of probation and parole services, community treatment and rehabilitation programs and the funding of community residences operated by non-profit agencies.

Expenditures on this Activity during the 1989 fiscal year totalled \$77 million (Vote 1002, Item 4).

#### SUMMARY

#### SCOPE AND OBJECTIVES

In our audit of the Community Services Activity we assessed whether:

- . probation and parole orders were enforced; and
- . rehabilitation programs were properly identified, planned, executed, and assessed.

Our audit included visits to five area offices, located throughout the province. Each office visit involved interviews with both the Area Manager and Probation and Parole Officers, as well as a review of procedures and a sample of both case files and various community residence contract agreements.

In addition, we sent 155 questionnaires to managers and officers of another ten area offices in order to more thoroughly assess the extent of activities and concerns identified. We received 9 of 10 manager responses and 85 officer responses.

#### CONCLUSIONS AND FINDINGS

##### *PROBATION AND PAROLE SERVICES*

Although serious incidences of risk to public safety had been few, breaches of probation conditions frequently occurred without adequate enforcement action. Many factors impeded enforcement of probation orders.

- . Some Probation Officers had difficulty combining their counselling and enforcing roles.
- . Court backlogs and decisions frustrated enforcement efforts.
- . Certain probation conditions were impractical to enforce.
- . The number of cases an officer must handle had decreased since 1984. However, the workload was still not being evenly allocated across the Province. Officers in Metropolitan Toronto were particularly overloaded.
- . Supervision of Probation Officers was insufficient to ensure that appropriate actions were taken and that Ministry policies were consistently followed.

## Comments on Ministry and Crown Agency Audits

In contrast, we found conditions of parole to be much more strictly monitored and enforced.

### COMMUNITY TREATMENT / REHABILITATION PROGRAMS

Rehabilitation programs were not adequately identified, planned, executed and assessed. The proportion of repeat offenders has consistently exceeded 40 per cent. Again, many factors have impeded the Ministry's efforts to provide effective rehabilitation programs.

- . Important offender information was maintained by the courts and police, yet was not readily accessible to Probation Officers.
- . There was a shortage of effective treatment programs, particularly for those with psychiatric disorders.
- . Insufficient effort had been made to evaluate the effectiveness of existing programs in reducing subsequent criminal behaviour.

### BACKGROUND

Offenders under the Ministry's supervision are generally less dangerous than those under the federal corrections system. Only parolees with jail sentences of less than two years or offenders with probation sentences come under provincial jurisdiction. The most common offences are theft/possession, break and enter, and assault and related crimes. At any given time, there are some 35,000 adult and 7,600 young offenders (ages 16 and 17) on probation, as well as some 1,600 incarcerated offenders on parole.

The Ministry's responsibility is discharged primarily through a network of some 600 Probation and Parole Officers located in some 120 offices throughout the Province. These Officers are required to:

- . counsel offenders and provide rehabilitation opportunities to the offenders to help re-integrate them into the community;
- . ensure that offenders adhere to court orders and parole conditions;
- . assess needs and make referrals to various service agencies such as alcohol and drug abuse centres;
- . when requested by the courts, provide written assessments prior to sentencing (some 15,000 in the 1988 fiscal year); and
- . provide similar assessments to the Ontario Board of Parole prior to parole hearings (some 7,000 in the 1988 fiscal year).

The Ministry contracts with non-profit agencies for many offender services such as community residences for both adults and young offenders, various therapeutic treatment programs, as well as for monitoring adherence to some court orders such as Community Service Orders. A variety of services are also provided by some 1,400 volunteers.

## Correctional Services

### Community Services Activity

#### COMMENTARY

#### PROBATION AND PAROLE SERVICES

##### Overview

The proportion of offenders serving sentences in the community rather than in institutions had grown from 55 per cent in 1963 to 87 per cent in 1988. Under existing legislation, the maximum probation term for adults and young offenders is three years and two years respectively, with the average term being a little over 15 months.

These offenders generally must adhere to conditions stipulated by the courts. Similarly, parolees must adhere to certain conditions as directed by the Ontario Board of Parole. Typical conditions require offenders to perform community work, make restitution payments or refrain from behaviour such as alcohol and drug abuse. Offenders are also required to report to a Probation and Parole Officer either as directed by the court or as deemed necessary by the Officer.

Officers have no policing or judicial authority and can only counsel probationers and urge them to comply with their orders. Enforcement procedures include telephoning the offender, visiting the offender's home and sending a registered letter requesting a re-scheduled appointment. Once these procedures have been exhausted, the Officer may lay a wilful failure to comply charge, putting the matter back in the hands of the court to determine whether, if found guilty, a jail sentence or more stringent probation is warranted. The Ministry stresses that this alternative be used only as a last resort. Therefore, Officers are expected to use considerable discretion in deciding when to stop relying on persuasion and exercise the legal option.

##### Increase in Unenforced Probation Conditions Caused by Many Factors

The Ministry introduced case supervision and recording standards in 1987. **Despite the introduction of the standards, our interviews and review of probation files revealed that numerous conditions of probation were regularly violated and that the frequency of violations had worsened since our audit in 1984.** This was caused by a variety of factors, some of which were within the control of the Ministry while others were not.

In 1984, we reported that 11 per cent of cases examined showed violations of the reporting conditions set out in the probation order. In this audit, 45 per cent of the cases examined revealed repeated violations of probation conditions, often despite considerable effort by the supervising officer to ensure compliance. In some cases, several conditions were violated.

| Condition                 | # of Cases<br>Including the<br>Condition | Frequency of<br>Violations in<br>Case Sample |    | Charges Laid |    |
|---------------------------|--|--|----|--------------|----|
|                           |  | #  | %  | #            | %  |
| Reporting to Officer      | 87                                       | 19   | 22 | 3            | 16 |
| Perform Community Service | 30                                       | 16   | 53 | 6            | 38 |
| Restitution               | 7  | 6  | 86 | 2            | 33 |

## Comments on Ministry and Crown Agency Audits

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Although a number of these violations were simply technical in nature and in the Officer's judgement did not warrant legal action, the frequency of violations which did not result in charges being laid was surprising.

We further noted that probation orders were not being enforced in a consistent manner once violations occurred. Inconsistencies were observed not only between area offices but also within the same office. As well, 45 per cent of the Officers responding to our survey acknowledged such inconsistencies.

**A Ministry study in 1977 found that Officers perceived their role to be primarily social workers rather than law enforcement Officers. Based on our survey and discussions with Officers, this perception had not changed. Although this approach was successful for a large number of probationers, we noted cases where the actions taken by Officers when breaches occurred were clearly inadequate.**

There were a number of other reasons why charges for breach of probation conditions were not being laid. These included decisions and delays by courts which discouraged legal enforcement; unenforceable conditions; heavy workload in urban offices; and insufficient supervision of Officers, particularly in the larger offices.

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### Decisions and Delays by Courts Discouraged Legal Enforcement

When an Officer has to decide whether to take legal action on a probation violation, he must gather sufficient evidence to support his decision. The Officer's decision depends on his judgement as to whether the violation was wilful and, whether such wilfulness could be proven in court. The Ministry's enforcement guide states that wilfulness can only be legally proven if the Officer can demonstrate that the probationer:

- . knew what was required;
- . was aware of the consequences of non-compliance;
- . deliberately committed the act of non-compliance; and
- . was capable of complying with the conditions.

We found numerous cases where an Officer considered laying a charge for failure to report but decided against it. Two situations highlighted the judgement required.

- . A probationer with a sporadic reporting history failed to report for four consecutive scheduled meetings. The Officer initiated laying a breach of probation charge. Subsequently, the probationer reported. This caused the Officer to question whether intent of non-compliance could be proved in court.
- . Where a probationer with either psychiatric disorders, or a drug or alcohol problem failed to comply, it was extremely difficult to determine whether such non-compliance was deliberate, and whether it was in the best interest of the offender to proceed with a charge, notwithstanding public safety concerns.

## Correctional Services

### Community Services Activity

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Many probation staff maintained that breach of probation charges were not treated seriously by the courts and that this discouraged future action. They felt that charges were either plea bargained away by defense lawyers and crown attorneys or they received low priority because of lengthy court backlogs. A 1987 report on the Ontario Courts Inquiry conducted by the Ministry of the Attorney General states, "it takes too long to get to trial." Delays of up to one year in various provincial criminal courts were cited in the report.

Officers often remained in court waiting for their particular case to be heard, only to have the case postponed. Many Officers surveyed also expressed the concern that when breach charges were introduced into court they were sometimes dismissed by the judges without explanation, even though the officer believed that the evidence was clear enough to warrant a conviction.

Ministry statistics also suggested that although more breach charges were being laid, the frequency of charges had not kept pace with the increasing frequency of violations. Furthermore, the percentage of breach charges resulting in convictions had declined from 46 per cent in 1984 to 40 per cent in 1988. The Young Offender Act and the consequent de-emphasis on legal action for young offenders has also had an impact.

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#### Unenforceable Probation Conditions

Many Officers complained about the difficulty in enforcing conditions, such as requiring offenders to:

- . perform to the best of their ability in their programs;
- . abstain absolutely from alcohol and avoid restaurants which serve alcohol for a six-month period;
- . observe curfew hours; and
- . make reasonable efforts to find and maintain employment.

One danger of probation conditions which are impractical to enforce is that Officers may develop a "nothing can be done" attitude and stop trying to enforce probation orders. Furthermore, some Officers felt that if a probationer broke one of the conditions and got away with it, the probationer was more likely to breach other conditions of the order.

Clearly, efficient and effective probation services depend on the co-ordinated efforts of the justice and corrections systems. In Ontario, co-ordination is vital because these systems are separately administered. One way the Ministry can attempt to strengthen the co-ordination is to establish an inter-ministerial committee with the Ministry of the Attorney General and police force representatives.

Issues which the committee should address include:

- . Agreement on what constitutes a reasonably enforceable probation condition.

## Comments on Ministry and Crown Agency Audits

- . Methods of handling or revising difficult to enforce conditions of probation.
- . More efficient and timely ways to lay breach of probation charges or revoke probation. For example, Ministry staff have suggested that there could be a probation court or a day where only probation cases are heard. This way, more serious cases can be brought to the courts on a timely basis.

### Heavy Workload in Urban Areas Affected Service

Although the province-wide average caseload had decreased since 1984, the perception was that other factors had served to increase workloads. In previous audits, we reported that a systematic method of allocating Officers could provide a more efficient utilization of Officers and better distribute caseloads. Our current audit suggested that, although some progress had been made, the problem still remained.

To assess whether caseloads were more equitably distributed than in the past, we reviewed caseload statistics as at December 1988. **We noted that although the province-wide average caseload had decreased since 1984, there were still significant fluctuations in Officer caseloads.**

We acknowledged that any meaningful analysis of staffing levels would have to consider many factors.

- . Not all adult cases were actively administered. Each Officer could classify certain adult cases as requiring very limited supervision. As of December 1988, there were some 6,400 such cases or 22 per cent of all adult cases. Active caseloads varied from an average of 84 in the Central and Metro regions to 54 in Northern Ontario. Two Toronto area offices had active adult caseloads of over 100, yet one was as low as 65.
- . In northern and rural areas, the Officer had to spend a significant amount of time traveling, and spent more time in the field and in developing therapeutic programs. The rural Officer also had more success in developing a networking system with the community, the courts and the police, which helped to reduce the workload and increase effectiveness. Urban Officers act more as a broker of services due to high caseloads and increased availability of services.
- . Offenders could be either high or low risk. For instance, offenders with a history of psychiatric problems typically required much closer monitoring.
- . Many Officers conduct special activities, including specialized counselling and therapeutic programs, training of new staff, and helping to arrange and review contracts with service agencies.

Consequently, we expected to find some differences in average caseload between northern and southern area offices and for offices located near psychiatric hospitals. However, our analysis indicated instances where the workloads between area offices was clearly not balanced even after taking the preceding factors into consideration.

## Correctional Services

### Community Services Activity

Area managers we surveyed felt that ideal caseloads should average between 57 to 75 adult cases or 35 to 45 young offenders cases, depending on the nature and risk. This contrasted to the December 1988 province-wide average caseload of 93 adults (77 active) or 49 young offenders.

Although some research had been conducted, the Ministry had not come to any conclusion on what would be a reasonable caseload for an Officer to handle. We noted one area office had taken some initiative to address this issue. Using the Ministry's internal score sheet, developed for assessing offender risk, a computer was used to group Officer caseloads by the level of supervision required and to calculate an overall average risk score for the caseload. This average score was then multiplied by the total number of active cases to arrive at a workload factor for each Officer. This enabled the area manager to equitably distribute the workload in that area office. Such a system could serve as a basis for a more equitable allocation of Officers across the Province.

#### Insufficient Supervision of Officers

All staff within an area office, including Officers, secretaries and other administrative staff, reported to an Area Manager. The 48 Area Managers were also responsible for financial administration of the office, community work and agency contract management. Although seven area managers had been added in the last five years, with the recent increase in Officers there had been a 30 per cent increase in the proportion of staff to Managers during that period. With over 880 staff in area offices, Managers were on average responsible for more than 18 staff (13 officers and 5 support staff). Some supervised as many as 28.

This contrasted sharply with the equivalent position in the Ministry of Community and Social Services (COMSOC). COMSOC supervisors were primarily responsible for case file review to assess actions taken and proposed by an Officer. Typically, COMSOC supervisors were responsible for six Officers and four support staff. Each Officer carried an average caseload of 35 offenders under the age of 16.

Along with the day-to-day supervision duties, Area Managers must adhere to the Ministry's standards for case supervision and recording. These requirements included periodic "workload audits" to assess the administrative, legal, casework and community involvement activities of their Officers. All parole cases and at least 10 per cent of each Officer's probation cases were to be covered annually.

Most Area Managers surveyed felt that workload audits contributed positively to both job performance and case documentation but that they were not as effective as they should be. This was because most workload audits were done only once during the year, often too late to take any remedial action. **Some Area Managers felt that workload and time constraints prevented them from providing much ongoing supervision.**

Our file review revealed nine cases where the Officer neglected to take action even though the files clearly indicated that action was warranted. Of particular concern was one office where there was a recurring performance problem with

## Comments on Ministry and Crown Agency Audits

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one of the Officers. A review of this Officer's cases drew our attention to one in particular. The probationer had originally been given a 90-day jail sentence plus two years probation. The terms of probation required that the probationer report to the assigned Officer upon release and, thereafter, as directed by the Officer. Also, the probationer was to accept treatment, therapy and counselling for addiction to alcohol, as directed by the Officer. The individual was assessed as maximum risk.

There was little or no contact or enforcement action taken by the Officer despite numerous probation violations. The probationer was in and out of jail throughout the probation period for various offences, culminating in a three and one-half year sentence on a second degree murder charge. The only entry in the Officer's case notes during the period of supervision referred to a charge of possession for stolen property.

The Officer's involvement in this case was clearly unsatisfactory. The Area Manager stated that: "There is no way of knowing if this tragedy would have been averted if appropriate supervision had been provided. The Officer's failure would have been noted in a 100 per cent audit, however, this is not generally feasible given the large staff supervised and the heavy workload carried by area managers."

In our survey of the Managers, all but one agreed that if more time were available, weekly scheduled meetings with staff would be desirable. Such a process would help to make Officers more accountable for their decisions and actions; ensure consistency in the actions taken on similar cases; provide some case familiarity in the event of Officer illness or turnover; provide a second opinion on difficult cases; and better train Officers for the future. We observed such a process working well in a smaller office.

One area office was experimenting with an Assistant Manager position. An existing Officer was assisting the Manager to perform caseload audits, liaise with and manage the contracts with service agencies, and provide more supervision and training for inexperienced Officers. The Manager stated that this greatly improved the management function and would further improve when the position was given more formal decision-making authority.

We agreed with an internal audit recommendation, on a review of the Eastern Region, that the Ministry review the workload level of area managers in specific offices. By conducting such a review, in conjunction with a review of the distribution of caseloads across the Province, the Ministry may be able to reduce the number of staff positions at those offices with lighter caseloads and create supervisory positions in the larger offices.

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### Parole Cases Were Well Supervised

Parolees must abide by conditions established by the Board of Parole. Standard conditions involve general reporting and behaviour requirements, while special conditions may require the individual to attend employment or school, refrain from alcohol or narcotics, or not associate with certain people.

## Correctional Services

### Community Services Activity

**In contrast to probation conditions, the conditions for parole were essentially followed.** In only one of eight parole cases examined did a parolee fail to follow the required conditions and in this case, immediate action was taken by the Officer. The Board of Parole was informed and an arrest warrant was issued to the police to apprehend the individual.

There are two major reasons for such a contrast. Firstly, a breach of parole conditions is considered to be a more serious offense, as it has been committed by an offender who was incarcerated in the first place. Therefore, enforcement policy reflects the seriousness of the situation. Also, all parole cases are initially designated for maximum supervision and parole caseloads are kept small.

Secondly, taking action against a parole violator is relatively simple and does not require court proceedings. The Board of Parole is empowered to issue arrest warrants for parole violators. The only action required on the part of the Officer is to inform the Board of Parole.

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#### COMMUNITY TREATMENT / REHABILITATION PROGRAMS

##### Overview

The Ministry has no control over either the number of persons entering the criminal justice system or the number sentenced to community alternatives. It can only reduce caseloads by providing effective rehabilitative programs which ultimately reduce recidivism (repeat offenders).

Increasingly, Ministry policy has been to contract for programs and services with the non-profit and voluntary sector. Privatization has served a twofold purpose:

- as a means of managing an increased workload; and
- as a way for communities to become more involved in the correctional process.

The Ministry administers over 300 community service contracts across the Province, with approximately 60 different agencies such as the Salvation Army, the John Howard Society, Operation Springboard, the St. Leonard's Society and the Elizabeth Fry Society.

During the 1988 fiscal year, non-residential program expenditures totalled \$7.5 million. Various treatment programs were also provided under contracts with community residences at a cost of about \$17.2 million.

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##### Lack of Communication Inhibited Effectiveness

Seventy per cent of Officers we surveyed felt that better communication with the courts was needed to adequately assess risk and the needs of their probationers. Our audit confirmed a communication gap between the Officers and both the judiciary and police.

## Comments on Ministry and Crown Agency Audits

The primary means of assessing risk and developing a realistic supervision plan was to obtain reliable information about the offender's educational, social, employment, family and criminal history. Experience had shown that unless the needs of the individual were precisely identified, programs were often inappropriate and did not benefit the offender.

**Although much of the information required by the Officers was maintained by the courts or police, in many instances the Probation Officer did not have ready access to it. The Officer had to compile the information through time consuming inquiry or rely on the integrity of the offender to disclose these details.**

Among the information gaps cited by Officers were:

- . detailed information from the police regarding the specific nature of offences and the criminal history of offenders;
- . limited availability of trial transcripts and a judge's reasoning for a sentence; and
- . failure to notify the Officer when the police arrested a probationer.

The following example illustrates the possible consequences of a lack of information.

An offender convicted of assaulting his wife was given a probation period of two years with conditions to report to a Probation Officer as required and not to associate with his wife. The Officer did not have the details of the nature and circumstances surrounding the crime when providing the pre-sentence report to the judge. During the period of supervision, the Officer discovered that the client had visited a psychiatrist for depression but wished not to discuss the details. As time went on, the client displayed suicidal tendencies causing the Officer to refer him to a staff psychologist. However, the client refused to accept treatment and, because treatment was not a condition of probation, the Officer could not enforce it. Some time later in the probation term, the client shot and killed both his wife and himself.

Better up-front exchange of information between police and the Officer may have persuaded the judge to make "seeking professional help" a condition of probation.

The issue of inadequate information is not a new one. Studies done by the Ministry in 1977 and 1985 and a recent Coroner's inquest, identified this as a major concern. The problem persists.

We felt that the poor exchange of information was another reason for establishing an inter-ministerial committee comprising the Ministries of Attorney General and Correctional Services, as well as police force representatives.

### Shortage of Community Programs

**Notwithstanding the difficulties in identifying treatment needs, almost 70 per cent of the Officers and Managers interviewed or surveyed complained of shortages of community-based rehabilitative treatment programs. Specific shortages most frequently identified were:**

## Correctional Services

### Community Services Activity

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- . counselling, psychological and psychiatric services;
- . assessment/treatment for drugs and alcohol addiction; and
- . employment/life skills training.

Furthermore, officers complained that even where the right kind of programs were available, they were difficult to access because community agencies with Ministry contracts had extensive waiting lists and agencies without contracts were unwilling to accept ministry referrals.

Probationers with serious psychiatric disorders caused the greatest concern. Area Managers and Officers felt that psychiatric cases were the most difficult clients. They were uncooperative, refused to report, would not take prescribed medications and at times displayed violent tendencies. Many of these individuals did not have stable or decent living accommodations and often refused treatment or were not treatable. Consequently, they required maximum supervision. A review conducted in April 1986 concluded that approximately 15 per cent of the Ministry's offenders had a mental illness which warranted psychiatric assistance.

As noted in our 1986 audit report on the Ministry of Health's mental health area: "the movement to de-institutionalize psychiatric patients has created a growing need for housing and community-based supportive services. Shortages of these facilities and services often cause discharged psychiatric patients to relapse and be remitted to hospital. High occupancy rates in hospitals have forced many patients into the community without the necessary support. The result has been a 'revolving door syndrome' at psychiatric hospitals."

One way to handle such cases would be to use Officers with specialized skills to provide more intensive supervision. A reduced caseload would provide the Officer with sufficient time to closely monitor and perhaps modify the behavior of such difficult-to-manage offenders.

In addition, the Ministry could increase its use of psychologists in probation offices and more closely co-ordinate its efforts to improve psychiatric services with those of the Ministry of Health, which has committed to a significant expansion of community mental health services in the Province.

The Ministry, in conjunction with Ministries of Health and Housing, could make attempts to establish stable and economic housing for their psychiatric clients. Perhaps this could take the form of an area office probation home in which one Probation Officer would be responsible for the residents and their probation orders.

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#### Effectiveness of Treatment Programs Not Evaluated

In order to maximize the benefit from the various offender rehabilitation and treatment programs offered, it is necessary to assess whether a program is effective in changing the behaviour of offenders.

## Comments on Ministry and Crown Agency Audits

Although the concept of requiring offenders to attend specific rehabilitation and treatment programs is relatively new, a number of programs have existed for many years. Examples include alcohol and substance abuse programs, and life skills/employment programs. However, their effectiveness has seldom been assessed.

We reviewed contracts for seven different treatment programs as well as the programs offered by eleven community-based adult and young offender residences. Although the Ministry reviewed all of these annually, only one contract was assessed in terms of its effects on repeating offenders. A follow-up study was carried out by the agency itself.

Since the proportion of probationers having previous contact with the corrections system had consistently remained at 40 per cent for a number of years, we felt it essential that the Ministry better assess which programs are effective in rehabilitating offenders. Such information would enable Officers to target the population group that would benefit most from a program and, hopefully, would reduce the incidence of repeat offenders.

### RESPONSE

The Deputy Minister's response dated September 12, 1989 included the following comments.

#### PROBATION AND PAROLE SERVICES

##### ***Unenforceable Probation Conditions***

*"Interministerial committees are currently in place and addressing specific program concerns such as Native programs, Victim Services, Group Home policies and young offender services such as Alternative Measures.*

*"Probation areas have established, either formally or informally, liaison with local police forces, crown attorneys, judges and court personnel. The Ministry of Correctional Services, together with Correctional Service Canada, the Metropolitan Toronto Police Force and the RCMP have been working on the establishment of a Parole Information and Communications Centre (Common Services Unit) in Metropolitan Toronto. The purpose of the centre will be to enhance communication between participating ministries as well as to co-ordinate information requests emanating from these ministries on parolees and bailees. This unit will be located at 60 Richmond Street East, Toronto, and is expected to open in the Fall of 1989.*

*"There is no question that co-ordinated efforts with other parts of the justice system could improve the efficiency and effectiveness of probation and parole services. We support the general intent of this recommendation and would be pleased to participate on such a committee if the other ministries are interested."*

##### ***Heavy Workload in Urban Areas Affected Service***

*"It is encouraging to see that the auditors recognize that caseload numbers alone do not adequately reflect the work of PPOs (Probation and Parole Officers).*

## Correctional Services

### Community Services Activity

*Community Corrections Branch is currently completing a study on the workload of PPOs. Through a number of interviews with area managers and PPOs, considerable data and information has been collected and a report was completed on August 31, 1989, and is presently being reviewed by the Community Corrections Branch. This report outlines the findings and recommends methods to measure workload.*

*"It has already been determined in a previous study that intensive supervision of low risk/low needs clients has a detrimental effect on rehabilitation.*

*"Conversely, supervision involving skill development and cognitive learning components has proven effective for high-risk/high need clients. The ministry has developed a Probation Resource Centre model to provide these services, and is awaiting funding to pilot this approach.*

*"All probation and parole officers are members of the bargaining unit and moving them from one office to another is not easily accomplished.*

*"The ministry, through attrition, could consider moving complement numbers, and does continually monitor workloads in this regard, and adjusts boundaries between offices as necessary and possible.*

*"However, with 123 offices throughout Ontario it is not always mathematically possible to re-allocate staff (e.g. a two person office with 130 cases and an average of 65 cases per officer cannot be reduced to a one person office)."*

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### **Insufficient Supervision of Officers**

With regard to the recommended review of the workload level of Area Managers:

*"Such a report was completed in April 1989. This report recognized that the workload of the Area Manager has increased in recent years without a corresponding increase in resources. A number of options were proposed and are currently under consideration."*

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### COMMUNITY TREATMENT / REHABILITATION PROGRAMS

#### **Shortage of Community Programs**

*"The ministry contracted with 23 psychologists and 17 psychiatrists during 1988/89 to provide psychiatric, psychological and psychometric services to P & P offices. Existing plans to expand these services are awaiting funding approval from Management Board.*

*"Professional development courses are provided to probation and parole officers in Advanced Counselling Skills, Interviewing Skills, Neuro Linguistic programming, Reality Therapy and Diffusion of Hostility and Family Violence.*

*"A clinical review of 42,000 cases to determine psychiatric needs is beyond the capability of existing resources and is not practical. The generally accepted figure of 'disturbed' clients is 15% on any given day.*

## Comments on Ministry and Crown Agency Audits

*"This figure is arrived at through a March 1987 'snapshot' of all offenders in all ministry facilities which documented that 15% of our total population suffered from some form of psychiatric, psychological and behavioural disorders.*

*"Those clients most in need of psychiatric and psychological services are referred to professional resources who are appropriately trained to deal with mental illness.*

*"The minister is certainly prepared to work in closer liaison with the Ministry of Health and its Community Mental Health services in this regard."*

### **Effectiveness of Treatment Programs Not Evaluated**

*"A committee has been established to recommend procedures for program evaluation.*

*"However an effective longitudinal study of offenders who have left our care is not possible, since we have no legal mandate to track them or to interview them."*

### **3.6**

#### **Parole Decisions Reasonably Effective, Ontario Board of Parole, Ministry of Correctional Services**

The Ontario Board of Parole is an autonomous Board accountable to the Minister of Correctional Services for its parole decisions. The Board consisted of 19 full-time members (including the Chair, Executive Vice Chairman and five Regional Vice Chairmen) and about 100 part-time members, all of whom are appointed by Orders in Council. The total expenditures of the Board for the 1989 fiscal year amounted to \$3.7 million (Vote 1001, Item 11).

#### **SUMMARY**

#### **SCOPE AND OBJECTIVE**

Our audit of the Ontario Board of Parole assessed whether procedures followed by the Board showed adequate regard for public safety. Our audit included a review of 100 files to verify that established procedures were followed and that information on file supported the decisions reached. It was not our intention to question the ultimate decisions made.

#### **CONCLUSION AND FINDINGS**

The procedures adopted by the Board for making parole decisions were reasonably effective in safeguarding the public. However, better documentation of the rationale for Board members' decisions, together with ongoing reviews of selected cases, would improve their quality and consistency across the Province and further reduce the risk to the public.

#### **COMMENTARY**

#### **Overview**

Only offenders with jail sentences of less than two years, or offenders with probation sentences, come under provincial jurisdiction. All incarcerated offenders are eligible for parole consideration after serving one-third of their

## Correctional Services

### Ontario Board of Parole

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sentence terms. If parole is granted, the individual resides in the community under the supervision of a Probation and Parole Officer, while adhering to standard and special conditions stipulated by the Board. Standard conditions involve general reporting and behaviour requirements, while special conditions may require the individual to attend employment or school, refrain from alcohol or narcotics, or not associate with certain people.

The parole hearings are conducted in each provincial institution by a quorum of three persons. One is a full-time member of the Board and two are part-time members, drawn from the community where the institution is located. The decision to grant or deny parole is based on three legislated criteria:

1. Has the offender derived maximum benefit from incarceration?
2. Will release aid in rehabilitation?
3. Is the offender an undue risk to community safety?

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#### **Established Procedures Are Reasonably Effective**

Typically, about 10,000 parole decisions are made every year, approximately 3,500 of which are affirmative. In the 1988 fiscal year, 84 per cent of those granted parole successfully completed their parole. Of the 16 per cent where parole was not completed, only 2 per cent were revoked because of charges for other criminal offences. The other 14 per cent had their parole revoked because of violations of parole conditions.

**In matters of public safety, it could be argued that even a single violation by a parolee is too many. However, given that only two per cent of paroles were revoked because of other criminal offences committed during the parole period, it is reasonable to conclude that the parole process has been effective in safeguarding the public.**

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#### **Better Documentation of Decision Rationale Needed**

When considering each case, the three Board members receive a variety of facts, opinions and recommendations which must be considered or interpreted before deciding the outcome. Interviews with the offenders enhance and clarify this information, particularly with respect to the inmate's character and attitude. It is the job of each Board member to analyze and synthesize the available information to arrive at a fair decision. Consequently, differing points of view are to be expected from time to time.

Our sample included 69 cases where parole was granted. Of these, there were 24 cases where the Board disagreed with a "NO" recommendation made by either the police or ministry staff involved in the process, yet the rationale was not documented. Although it was difficult to conclude definitively from the limited documentation available, it appeared that good release plans for future reintegration of the offender into the community was the prime consideration for the decision and not the offender's history.

## Comments on Ministry and Crown Agency Audits

Given the many factors to consider, we recommended that the rationale for all decisions be better documented. This would assist the Regional Vice Chairmen and the Office of the Chair to review decisions and bring their experience to bear in training new Board members.

The Board recently completed a detailed study of ten serious cases of parole violation and reached the same conclusion. In fact, the study went a step further to question the quality and/or completeness of the information package provided to the Board members prior to a hearing. As a result of this study, the Board was considering a number of improvements:

- audio taping the proceedings and the decision and rationale statements;
- reviews by the Regional Vice Chairmen of a random sample of the files to provide feedback to Board members; and
- a limited audit of the files by the Chair's office.

We agreed that all three suggestions had significant merit.

### RESPONSE

The response from the Chair, Ontario Board of Parole included the following comments.

*"The Board has been aware of the need to improve documentation, and had therefore already decided to take certain actions before your audit had commenced. In March of 1989, the Board introduced, as a matter of policy, 63 decision-making factors to be used as 'a reference point in considering all in-person initial and review (i.e., not post-suspension) parole hearings'. The Board is currently considering various ways of incorporating these guidelines into a standard reading/hearing/decision-making form. A final form is expected to be developed, tested and in use by March 1990."*

The response also indicated that the Board:

- *is in the process of designing a number of staff training courses to enhance the skills of Board members in conducting parole hearings and making/writing parole decisions. These courses are part of the Board's corporate staff training and development plan which was developed in April of 1989. Two new courses, on the role and responsibilities of the hearing chairman and case preparation, will be offered during the 1989/90 fiscal year, while courses on interviewing and decision-making/writing will continue to be offered in the 1990/91 fiscal year.*
- *will be introducing the standard practice of audio-taping all parole hearings. This is expected to improve record-keeping of parole hearing proceedings. This practice will commence early in the new fiscal year.*
- *is developing a comprehensive program evaluation and review plan for promoting the formal and ongoing review of compliance with, and adequacy of, Board policies and practices. We hope to have this plan finalized by March of 1990.*

## Government Services

### Leased Accommodation

- *has already established a limited practice of auditing files at the regional level to review field compliance with Board policies.*

#### 3.7

#### **Improved Practices Required, Management of Leased Accommodation, Ministry of Government Services**

The Ministry of Government Services is responsible for the provision of all Government accommodation, including the conducting of all negotiations and the signing of all agreements.

For the 1989 fiscal year, the Ministry administered approximately 1,700 leases requiring annual payments of approximately \$153 million.

#### **SUMMARY**

#### **SCOPE AND OBJECTIVES**

Our audit covered the planning, acquisition and utilization of leased accommodation.

Our audit objectives were to assess whether:

- the planning process identified accommodation requirements on a timely basis;
- accommodation requirements were acquired economically and in accordance with Management Board Directives; and, whether
- procedures were adequate to ensure the maximum use of accommodation.

#### **CONCLUSIONS AND FINDINGS**

##### *INADEQUATE PLANNING PROCESS*

**The planning process did not identify accommodation requirements on a timely basis. Contrary to Management Board Directives, a five-year plan to identify current and future accommodation requirements was not prepared.**

##### *REGARD FOR ECONOMY*

**Leased accommodation was generally acquired economically and in accordance with Management Board Directives. However, while the purchase of accommodation is recognized as generally more economical than leasing, the proportion of leased to owned space, particularly in Metropolitan Toronto, continued to increase.**

**With respect to leases reviewed, we noted that some specific location requirements were inadequately justified. Restricting the area of search to a particular building or geographical area could result in unnecessarily higher costs.**

## Comments on Ministry and Crown Agency Audits

### *EFFICIENT USE OF SPACE*

Procedures were not adequate to ensure maximum use of Government accommodation. This was partially due to conflicting responsibilities between the Ministry and other ministries.

The leased space information system was not accurate and had not been updated for at least two years.

### BACKGROUND

Per Management Board Directives, "The Ministry of Government Services is responsible for the provision of all government accommodation and shall ensure the optimal overall utilization of the total inventory of government accommodation." To assist in this process, the Ministry is to maintain a central inventory of all accommodation indicating the specific allocation of space to ministries.

Ministries are supposed to inform the Ministry of Government Services immediately of all changes in use or occupancy which affect the central inventory.

Management Board Directives assign the responsibility for identifying accommodation requirements to each ministry. These requirements are then to be submitted to Government Services, which is to prepare and maintain a five-year accommodation plan. This plan is to be submitted annually for review and approval by Cabinet.

### COMMENTARY

#### *INADEQUATE PLANNING PROCESS*

**Five-year plans** would provide the Ministry of Government Services with the necessary lead time to ensure accommodation requirements are acquired economically. This could include consolidating a number of requests into one package. However, such plans **were not being prepared. We were advised that multi-year planning for accommodation is not possible since ministries do not provide the required information.**

Lack of long-term accommodation planning places the Ministry in a reactive rather than proactive position. By having to fill individual client ministry requests as they arise, often on relatively short notice, the Ministry is unnecessarily limited in its options.

**A number of new lease projects that we reviewed, required the space to be ready within one year. In our opinion, this was insufficient lead time to properly plan, evaluate and acquire accommodation, particularly where a lot of space was required.**

#### *REGARD FOR ECONOMY*

Client ministries are required to submit their accommodation requests to Management Board with a copy to the Ministry of Government Services. These requests normally include a detailed space analysis which is reviewed by the Ministry based on maximum space entitlements prescribed by Management Board.

## Government Services

### Leased Accommodation

Management Board approval is required for all lease projects with new or increased space requirements that result in additional annualized rental charges exceeding \$25,000.

**Leased accommodation was generally acquired economically and in accordance with Management Board Directives. However, the following matters were noteworthy.**

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#### **Purchase vs. Leasing of Long-term Accommodation**

The Ministry of Government Services has for some time been one of the largest landlords and tenants in Ontario. Various studies indicate that for a number of years, the Ministry has been concerned about the extent of its leasing requirements, particularly in the Toronto core area, and the potential effect of significant lease rate increases.

Recognizing that owning long-term accommodation is usually preferable to leasing, **Management Board Directives require that major, long-term accommodation requirements be financed through capital acquisitions rather than through lease or lease-purchase agreements.**

**However, the amount of leased space in Metropolitan Toronto has steadily increased in relation to the space owned. While the Ministry leased approximately 3.8 million rentable square feet, or 30 per cent of its space requirements in Metropolitan Toronto in 1983, leased space increased to 4.6 million rental square feet, or 35 per cent of requirements, by 1988. With the exception of the relocation of some ministries out of Toronto, there has been little replacement of leased with owned office space.**

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#### **Location Requirements for Leased Accommodations Inadequately Supported**

Accommodation requirements, including preferred locations, are normally specified by the client ministry. The Ministry of Government Services, as a service provider, often accepts these specifications. **However, we noted that some specific location requirements were inadequately justified.**

**Restricting the area of search to a particular building or geographical area could result in unnecessarily higher costs. For example:**

- a) In November 1985, the Ministry of Housing identified a need for approximately 14,400 rentable square feet for the Rent Review Division. Management Board approved the request for space on the condition that it be acquired by competitive bids. The Ministry of Housing requested that the Rent Review Division be located in 777 Bay Street, the same location as the Ministry's head office.

The Ministry of Housing indicated that locating away from its current head office would require a total of approximately \$500,000 in additional program support costs over the initial five years. This consisted primarily of mail service and communication costs. The reasonableness of this figure could not be substantiated.

## Comments on Ministry and Crown Agency Audits

The Ministry of Government Services advertised for the total space requirement of 21,100 rentable square feet in February 1986. Fourteen submissions were received of which three were eliminated for being outside the advertised boundaries. Of the remaining 11, four were put on the short list of potential choices. The Ministry of Government Services noted that three of these represented the best real estate value. **The fourth, 777 Bay Street, which was also the highest cost alternative, was included on the short list at the request of the Ministry of Housing.**

Eventually a lease for 17,800 rentable square feet was arranged at 777 Bay Street for the Rent Review Division. **The cost of this space for the initial five years exceeded the lowest cost proposal by approximately \$280,000. The difference will increase dramatically if the lease is renewed for another five years.**

In March 1989, we noted that approximately 2,000 square feet of the space leased at 777 Bay Street was vacant, while the balance was being used for various Ministry of Housing executive offices, not the Rent Review Division. In fact, most of the Rent Review Division was located in temporary quarters at another location.

Since part of the justification for locating at 777 Bay Street was the \$500,000 in additional costs for locating elsewhere, the final outcome of the process was questionable.

- b) In March 1987, the Ministry of Energy submitted a request to Management Board to relocate the Ontario Energy Board to another location reasonably close to the Queen's Park area. The Ministry of Government Services' profile report identified two options:
- . lease in the vicinity of the client's preference; or
  - . search for an alternate location within Metropolitan Toronto.

In May 1987, Management Board approved the area of search for this lease request to be within Metropolitan Toronto. However, Management Board later clarified that its expectation in a case like this would be that the Ministry of Government Services and the client Ministry would agree on a more limited area of search within Metropolitan Toronto, but not downtown.

**At the request of the Ontario Energy Board, the area of search was subsequently limited to the Yonge subway line north of Summerhill. We were unable to determine how this area of search was selected or why it was deemed to best serve the needs of the Ontario Energy Board.**

The Ministry of Government Services advertised for tenders in July 1987. **The lowest cost proposal was not accepted because it was not directly on the subway line.** (Although accessible by bus, the nearest subway stop was approximately a 15-minute walk from the site.)

## Government Services

### Leased Accommodation

By rejecting this proposal, the Ministry will incur additional leasing costs of over \$250,000 during the initial five-year term of the lease.

We noted that the rejected location was found to be suitable for the Ministry's bulk lease proposals in the following year. (Bulk leases were large leases of space which would be allocated to several ministries).

- c) In July 1987, Management Board approved the leasing of up to 215,000 usable square feet of accommodation through bulk leases. To the greatest extent possible, space was to be located in suburban locations of Toronto.

The Ministry of Government Services advertised for proposals for quality buildings within one kilometer of a subway or rapid transit line. The 29 proposals received were in four zones: fringe downtown core, north Yonge Street, west Metro and east Metro. The proposals were ranked based on building, cost and location criteria. A total of 138,000 usable square feet was leased as a result of this process.

Client ministries were permitted to select accommodation from the successful proposals without further Management Board approval. Management Board approval was only required when a ministry wanted to locate in the downtown core.

**As a result of this process, client ministries only selected space in the fringe downtown core and north Yonge Street. We noted that, on average, lease rates in the two zones from which no selections were made were 20 to 30 per cent less costly than those in the North Yonge zone.**

Considering the significant difference in costs, client ministries should have been encouraged to locate in the lower cost zones since buildings situated there also met the qualification criteria. It should be noted that some of the buildings in west Metro and east Metro were ranked higher by the Ministry than some of the buildings selected.

- d) Management Board's requirement of obtaining competitive bids can be waived where:
- . a relatively small amount of space is to be obtained adjacent to existing accommodations;
  - . the preference for a particular location has been adequately demonstrated; or
  - . time constraints do not permit a tender or re-tender process.

Consequently, a number of leases reviewed were not publicly tendered. In these cases, we were unable to determine whether the leased accommodation was the most appropriate and economical. For example in January 1987, the Ministry of the Attorney General needed space to hold a major trial. Attorney General staff originally considered a number of locations, including existing facilities in Newmarket and Milton.

## Comments on Ministry and Crown Agency Audits

However, none of these could be made available for the time needed. In addition, senior staff of the Ministry of the Attorney General expressed preference for downtown Toronto.

The Ministry of Government Services indicated to Management Board that there was no suitable existing Government-owned or leased space available at that time. In October 1987, Management Board approved leasing 13,600 usable square feet of space.

In January 1988, the Ministry advertised for proposals for space in downtown Toronto. Six responses were received. We were advised that two of these were rejected because the buildings were still under construction and would likely not be ready by the date specified. Another two proposals were rejected for technical reasons. Of the two remaining proposals, the lowest cost proposal did not offer a renewal clause as required by the Ministry. This proposal was eventually withdrawn from the competition.

The Ministry accepted the only remaining proposal and entered into a five-year lease for 14,200 rentable square feet at a cost of \$44.30 per square foot, or \$630,000 per year. Considering the significant cost of this space, we questioned why other arrangements were not made for the trial, such as moving it out of the downtown Toronto core.

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### *EFFICIENT USE OF SPACE*

#### **Conflicting Responsibilities**

In 1985, we reported that the Ministry had been assigned conflicting responsibilities regarding the accommodation portfolio resulting in inadequate assurance that Management Board policies were being followed. At the time of our latest audit, the same situation still existed.

Management Board Directives state that each ministry is responsible for the economical and efficient use of the accommodation allocated to it. On the other hand, the Ministry of Government Services is responsible for ensuring the optimal overall utilization of the total inventory of Government accommodation. In order to meet these requirements, client ministries are required to:

- report and relinquish all surplus space to the Ministry of Government Services for reallocation, lease termination or disposal; and
- inform the Ministry of Government Services immediately of all changes in use or occupancy which affect the central inventory.

These requirements were often not being met. In that regard, we found inadequate procedures to ensure the overall optimal utilization of space.

## Government Services

### Leased Accommodation

#### Accommodation Management Information System Not Accurate

The Ministry's computerized Accommodation Management Information System is designed to maintain an accurate record of the allocation and use of both owned and leased space. The accuracy of this space information system is essential to monitoring the total space assigned to a particular ministry and to assess additional entitlements.

**We found that the space allocation information in the System was not accurate and not up to date, therefore limiting its usefulness. We were advised that the Ministry last attempted to obtain occupancy information from client ministries in September 1987.** However, no further attempts had been made to update the data.

Concerns about the completeness and accuracy of information contained in the System and its effect on the planning process were also noted in our 1985 report. At that time, the Ministry indicated that a major review project had been initiated to significantly enhance existing systems and procedures. Based on our latest audit observations, the results of this review were not visible.

#### Lack of Overall Space Reconciliation

In conducting our audit of individual lease projects, we noted a number of instances where the space acquired exceeded the amount approved by Management Board. Total entitlements are expected to approximate the actual space acquired and occupied.

As we noted in our 1985 report, accommodation is provided to client ministries, for the most part, without charge. Therefore, ministries are not financially accountable for their accommodation decisions. Accordingly, there is little incentive for ministries to declare surplus space. Based on existing responsibilities, the Ministry of Government Services cannot plan for, or re-arrange, accommodation until such a declaration is made.

We noted that there were no requirements for ministries to certify what space is occupied by them or whether it is efficiently used. Furthermore, since the Ministry of Government Services does not periodically review client ministries' space entitlements, occupancy and utilization, it would, in most cases, not be aware of space vacancies or underutilization.

#### RESPONSE

The Deputy Minister responded to our report on September 15, 1989.

*"We have canvassed our client ministries for their specific comments on issues where they were named. We have incorporated their comments in this response."*

#### INADEQUATE PLANNING PROCESS

*"The Capital Expenditure Plan which is the current five-year capital planning process is administered by the Management Board Secretariat. At Management*

## Comments on Ministry and Crown Agency Audits

*Board Secretariat's request, MGS (Ministry of Government Services) annually integrates the five-year capital accommodation requests of Ministries under this process which does not address leasing projects. The Directives are being revised to reflect this approach.*

*"MGS has launched a head office planning process which requests Ministries to identify their ten-year requirements and MGS is currently working with four Ministries and have targeted three additional Ministries towards finalizing these plans.*

*"MGS has been taking a more strategic supply-oriented approach to the accommodation planning process. The MGS Local Portfolio Planning Process does review accommodation holdings to develop a framework for subsequent action for both leased and owned accommodation in specific municipalities. Client Ministry requirements are then addressed within this planning framework."*

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### REGARD FOR ECONOMY

#### **Purchase vs. Leasing of Long-term Accommodation**

*"The Directive is being reviewed to be cognizant of other mechanisms which may be used to acquire ownership over time. MGS is seeking corporate approval to access a range of financial mechanisms such as leasebacks, joint ventures and lease/purchase.*

*"In keeping with the principles approved by Cabinet in 1982 and as amended in 1986, but cognizant of changing circumstances, MGS has been developing projects for the retrofit/replacement of existing buildings and the provision of new office space in Metro including decentralized locations out of the core.*

*"MGS is actively working on four projects for new office space on owned sites in Metro Toronto totalling over 1,000,000 square feet. In addition, MGS plans to retrofit an owned building, to be vacated under the Northern Ontario Relocation Program, as a replacement for leased space. Completion of these projects will be dependent on corporate approval for capital or the use of a range of innovative ownership mechanisms. Leased space will, however, remain a flexible mechanism for meeting demands for accommodation to house unanticipated program needs."*

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#### **Location Requirements for Leased Accommodations Inadequately Supported**

- (a) *"Leasing Services Branch selected the lowest net lease cost which included recognition of the client Ministry's specific operations needs costed at \$500,000 as outlined by the Ministry of Housing.*

*"The Ministry of Housing advises that it was imperative at the time we negotiated this lease to have the Rent Review Program located in the same facility as the Ministry of Housing support services. At that time, the Ministry was developing legislation, policies and procedures for this new program and*

## Government Services

### Leased Accommodation

*it was essential that staff have ready access to support services, e.g. to Management Services Branch for the development of the Rent Registry; Communication and Information Services Branch for advertising, public relations; Legal Services Branch for assistance in drafting legislation. This space was intended to be used by the Rent Review for a temporary time, that is, until the legislation, regulations and policies were developed, the organizational process put in place and the program operational. The Rent Review Services Branch has since been able to relocate to less costly space elsewhere.*

*"During the course of this audit (March 1989), the Ministry was renovating 1,250 square feet of office space (not 2,000) to accommodate additional staff for the Assistant Deputy Minister, Housing Supply, Policy and Rent Review, and others. This space has been fully occupied since mid-April, 1989.*

- (b) *"The Ontario Energy Board specifically requested, by memo dated May 29, 1987, that the leased space be near the north/south subway.*

*"The Client decided not to accept the building which required a fifteen minute walk, due to the nature of its program requiring numerous hearings. Significant savings were achieved in the building selected as the client accepted the space with minimal leasehold improvements.*

*"In the second instance, the bulk lease projects did not indicate the need or preference for subway proximity and therefore this building was acceptable to the Clients.*

*"There were eight responses to the public advertisement. Four proposals were short-listed. One of these was disqualified as the landlord would not consider a gross lease format as required in the proposal call. The award was made to the lowest cost proposal, i.e. 2300 Yonge Street.*

*"The Ontario Energy Board advises that as it is a public hearings Board accessibility and convenience to the public is a key consideration. Historically, the Board has been located in the downtown core directly accessible by subway. When Management Board's approval excluded consideration of the downtown core, the Energy Board identified the north/south line as its preference because of more suitable space having regard to its priority of public convenience and accessibility.*

*"The Ontario Energy Board also advises that any incremental costs incurred by it due to its move (LHI, moving expenses, leasing costs) were passed on through special levies to its clients in accordance with Management Board Directives.*

- (c) *"A major principle of the bulk lease project was recognition of the Client Ministry's operational requirements. The choice from the buildings which qualified was solely the clients.*
- (d) *"The Ministry of the Attorney General determined that the space must be located in the downtown core to accommodate and provide easy accessibility for the hearing participants.*

## Comments on Ministry and Crown Agency Audits

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*"Further, the designated occupancy deadline for the hearings precluded a second advertisement for the space in alternative locations.*

*"The Ministry of the Attorney General advises the following:*

- The major trial referred to could not have been held in Newmarket or Milton as the report notes because of the anticipated duration of the trial. In addition, however, the amount of space required was not available in either of the court houses.*
- The large space required was due to the trial involving many defendants' counsel as well as a large team of Crown counsel. The nature of the proceedings was such that a very large volume of police evidence had to be immediately available throughout the trial, therefore, it all had to be accommodated at the courtroom site.*
- While the cost of renting equivalent space outside of Metropolitan Toronto might have been somewhat lower, the costs of transportation for all concerned, many at the taxpayers' expense, would have been significantly higher. The inconvenience to all participants by having to 'commute' was also considered as one factor in the decision."*

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### EFFICIENT USE OF SPACE

#### **Conflicting Responsibilities**

*"The Directives are being revised to more clearly state the accountability of individual Ministries for their space utilization, to indicate the requirement for each Ministry to have the appropriate monitoring processes, and to identify space utilization as one of the items subject to internal audit.*

*"Recognizing the need to review and clarify accommodation and real estate policies and procedures, Management Board Secretariat, with the participation of MGS and others, is currently reviewing existing directives with a view to providing appropriate recommendations for change."*

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#### **Accommodation Management Information System Not Accurate**

*"Recent measures have been taken to improve the rate at which information is entered into the system, the process by which data capture and entry are accomplished, and the method used to obtain current information on client occupancies."*

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#### **Lack of Overall Space Reconciliation**

The response included the following comments:

*"Space under lease for clients is considered part of their allocation and clients are responsible to ensure the efficient and economical use of the space allocated to them.*

## Government Services

### Management of Government-owned Buildings

*"The existing process allows the client up to 24 months advance notice to determine continued need for leased space due for renewal. In future, as part of the lease renewal procedure the Client Ministry will be required to confirm that the entire space has been allocated and is occupied, or otherwise required."*

*"Some Client Ministries, due to their on-going expansion and undefined backfill requirements, have continued to occupy space which otherwise would have been declared surplus."*

*"According to Management Board directives, declarations of surplus space are the responsibility of Client Ministries."*

#### 3.8

#### **Repair Procedures Not Followed and Services Not Acquired Economically, Ministry of Government Services**

The repair, operation and maintenance of Government-owned buildings is primarily the responsibility of the Ministry of Government Services' Property Management Division.

For the 1989 fiscal year, these expenditures totalled \$113.4 million.

#### **SUMMARY**

#### **SCOPE AND OBJECTIVES**

Our audit of Government-owned buildings included activities at the Ministry's Central Operations Branch and visits to three district offices.

Our audit objectives included an assessment of Ministry procedures to ensure:

- . repair projects were undertaken only when necessary and in order of priority;
- . repair, operation and maintenance services were provided economically; and
- . Government-owned buildings complied with building codes and regulations.

#### **CONCLUSIONS AND FINDINGS**

#### **NECESSITY AND PRIORITY OF REPAIR PROJECTS**

**Procedures did not ensure repairs were undertaken only when necessary and in order of priority.**

- . Business cases lacked sufficient detail to demonstrate either the necessity of approved repairs or the alternatives considered.
- . There were significant deviations from established priorities.
- . In a number of instances, projects were divided into smaller projects, thus avoiding a more stringent approval process.

## Comments on Ministry and Crown Agency Audits

### *ECONOMY OF REPAIR PROJECTS*

Repair services were not acquired economically.

- . There was insufficient detail to determine whether proposed costs or amounts paid were reasonable.
- . Contracts were frequently awarded at amounts significantly higher than the Ministry's estimates with no explanation.
- . There was no assurance that any additional or unanticipated work was at reasonable rates. For example, changes to one project cost \$737,000, including \$124,000 in mark-ups.

### *OPERATION AND MAINTENANCE SERVICE AGREEMENTS*

Operation and maintenance services were not acquired economically.

- . The reasonableness of amounts paid was not demonstrated. For example, the value received under one contract was approximately \$4,500 per month. However, the Ministry paid \$13,000 per month.
- . Acquiring elevator service through competitive bids could have realized substantial savings. In one district alone, such savings would have amounted to \$1 million or more over the life of the existing agreements.

### *COMPLIANCE WITH BUILDING CODES AND REGULATIONS*

The Ministry did not have a regular ongoing process to assess the extent to which Government-owned accommodations complied with applicable building codes or regulations. However, the Ministry was aware that significant non-compliance existed. The Ministry estimated that:

- . it would cost approximately \$3 million per year to comply with the fire alarm and protection systems maintenance requirements of the Ontario Fire Code. As well, \$50 million may be required to retrofit health care facilities to meet Fire Code requirements; and
- . \$38 million is required to provide access for the handicapped to applicable Government buildings. The Ministry has since announced a five-year \$38-million program to improve handicapped access.

### **BACKGROUND**

The Property Management Division operates on a decentralized basis. There are four regional offices which are responsible for the ten district offices.

Regional and district offices receive annual expenditure allocations for the programs under their jurisdiction. Virtually all aspects of the repair, operation and maintenance of Government buildings are contracted out to the private sector. This has changed the emphasis of the Division's personnel from performing the work to providing contract management and ancillary services.

## Government Services

### Management of Government-owned Buildings

Repair, operation and maintenance expenditures for 1988/89 were:

|                           | \$<br>(millions) |
|---------------------------|------------------|
| Repairs over \$50,000     | 29.5             |
| Repairs under \$50,000    | 20.1             |
| Operation and Maintenance | <u>63.8</u>      |
|                           | <u>113.4</u>     |

#### COMMENTARY

#### NECESSITY AND PRIORITY OF REPAIR PROJECTS

##### Overview

The Government's aging inventory of buildings is increasingly in need of major repair. This contributed to the introduction of a Province-wide assessment and approval process for all proposed repair projects which are estimated to cost \$50,000 or more.

District offices normally identify candidate repair projects during annual building inspections. Business cases are then prepared to demonstrate necessity, analyze alternatives, and defend the preferred option.

Prospective repair projects are prioritized as follows:

1. Non-repair would adversely affect the client ministry's program delivery;
2. Repair is a health and safety issue to either staff or the visiting public;
3. Repair would have to be done later at a higher cost; and
4. Repair is cosmetic or appearance-enhancing.

We were informed that business cases and priorities are discussed at an annual divisional meeting and approvals are based on Province-wide priorities. A list of approved projects is prepared at that time.

Repairs estimated to cost less than \$50,000 do not require the preparation of a business case and are not subject to a Province-wide assessment and approval process. These repairs are funded by lump sum allocations to regions and districts after discussion with head office and field operations staff.

##### Business Cases Not Detailed

The majority of business cases we reviewed were inadequate. There was insufficient detail to demonstrate the necessity of the repair, the alternatives considered, or the basis for recommending that the repair proceed as planned.

## Comments on Ministry and Crown Agency Audits

### Repairs Did Not Proceed in the Assessed Order of Priority

Our review of the 1988/89 list of approved repair projects over \$50,000 indicated that:

- Projects "over \$50,000" approved at the beginning of the year for the three districts visited totalled approximately \$13 million. However, expenditures on these projects totalled \$8.2 million. In addition, \$5 million was spent on other "over \$50,000" repair projects not originally approved. There was no evidence that these latter projects were subject to a divisional assessment and approval process to ensure that they were of higher priority than approved projects not undertaken.
- One district received approval to proceed with \$1.2 million in priority three projects such as replacing carpets and fixing windows. At the same time, other districts could not proceed with priority two projects (health and safety concerns), primarily due to a lack of funds.

### Splitting Large Repairs Avoids Assessment and Approval Process

Large repairs, which normally would be considered one project, sometimes were divided into smaller projects costing less than \$50,000 each.

In one instance, carpets were replaced on three consecutive floors at the same time, for \$104,000. Rather than treating the repair as one project, a work order was issued for each floor, each under \$50,000.

This avoided the approval process required for projects over \$50,000.

### *ECONOMY OF REPAIR PROJECTS*

#### Overview

Contracts for repairs estimated to cost over \$2,000 are normally awarded as a result of a public tender. However, where time does not permit an advertised tendering process, or where it is deemed desirable to limit the competition to previously qualified contractors, a minimum of three contractors are invited to bid. Contracts are always awarded to the lowest bidder.

To ensure that tendered bids are reasonable, Ministry staff are required to prepare pre-tender repair cost estimates. If an estimate varies by more than 20 per cent from the lowest bid, reasonableness must be established before the contract is awarded.

#### Reasonableness of Accepted Bids Often Not Established

Contracts were often awarded for amounts significantly in excess of the Ministry's cost estimates with no explanation as to whether the amounts were reasonable.

## Government Services

### Management of Government-owned Buildings

The Ministry's pre-tender cost estimates, contractors' bids and invoices lacked sufficient detail. Consequently, we questioned how the Ministry determined the reasonableness of the successful bids prior to awarding the contracts. In some instances, contract costs were more than double the Ministry estimate. For example:

- In February 1986, highly toxic material was discovered inside the walls of a laboratory building. In September 1986, an architect was hired by the Ministry to prepare specifications and to remove the material. The architect prepared a detailed cost estimate totalling approximately \$74,000. This included a \$10,000 allowance for possible cost overruns. In March 1987, the Ministry revised the estimate to \$88,000.

Rather than publicly advertising the project, the Ministry invited five contractors to bid. The only bid received was for \$193,000. We were informed that the bid was accepted primarily because "of the complex nature of the project and the amount of time it would take to re-tender."

An assessment of the reasonableness of the bid, including an analysis of labour and material costs, would normally be expected. The Ministry was unable to provide any information that would justify the significant difference.

- In 1985 a project was initiated to upgrade controls for six elevators in a psychiatric hospital. This project was incomplete at the time of our audit.

The Ministry estimated the cost at \$90,000. The lower of the two bids received was \$189,000. There were no supporting details available for the estimate.

The Ministry noted that, even after taking into account control changes, the average price of approximately \$31,000 per car was high when compared to \$13,000 paid for a one-car modernization at another location. The Ministry felt it had no alternative, reasoning that "bidders are reluctant to take on modernization work without an excellent return."

Due to additional work, the estimated cost of the project has increased to \$250,000.

We were advised by Ministry staff that they rely on the competitive tendering process. Regardless of what is estimated, the lowest bid is considered to be current market price. In our opinion, such reliance was often unwarranted, particularly where there were invitational tenders or where less than three bids were received.

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#### Inadequate Controls over Change Orders

In a number of projects, the scope of the work changed significantly after the contract was awarded. This necessitated the issuance of change orders.

Establishing the necessity for, and the reasonableness of the cost of, change orders is essential. The additional work is neither subject to the normal planning process nor acquired through competitive means. We found that, in general:

## Comments on Ministry and Crown Agency Audits

- . the necessity of change orders was not adequately demonstrated;
- . the Ministry did not estimate the associated costs; and
- . the Ministry did not receive sufficient information to determine the reasonableness of the revised costs.

In some cases, it likely would have been more economical for the Ministry to acquire the services through competitive means. For example:

- . A project to refurbish the heating and ventilation system at a rehabilitation centre was awarded to the lowest of four bidders for \$3.9 million. Subsequent to the commencement of the work, it was discovered that the centre had asbestos in its insulation. This had to be removed.

The Ministry issued six change orders to the contractor totalling \$737,000 for asbestos removal. There was no evidence that the Ministry had estimated the cost of this work prior to issuing the change orders.

The contractor did not provide detailed cost estimates, a description of the work or details regarding labour and material costs. Without these, it was not possible for us or, in our opinion, the Ministry to determine the reasonableness of the amounts paid.

**The contractor's invoices also lacked detail. However, we were able to determine that \$124,000 of the \$737,000 consisted of mark-ups paid to the contractor and a sub-contractor. Since the mark-ups were a percentage of the cost of the work, the contractors had no incentive to keep costs down.**

Hiring asbestos removal contractors directly would have avoided \$124,000 in mark-ups.

- . A contract to renovate a judge's suite in a provincial courthouse was awarded to the lowest of five bidders for \$49,500. Seven change orders brought the total price to almost \$98,000.

In our opinion, some of the amounts paid were unreasonable. For example:

- The Ministry estimated the value of the work for one change order to be approximately \$10,000. The amount paid was \$27,500.
- The contractor was paid \$12,500 for the removal of ceiling insulation containing asbestos. The asbestos had not been identified prior to awarding the contract. The payment included approximately \$3,000 in commission fees to intermediary contractors.

### Questionable Payments

**Some expenditures were questionable.**

- . The Ministry replaced all light fixture lenses and fluorescent bulbs on nine floors of a Government complex at a cost of approximately \$360,000, of which \$45,000 was for the bulbs.

## Government Services

### Management of Government-owned Buildings

We were advised that the bulbs were replaced at the same time as the lenses because labour costs are the most significant cost of bulb replacement. The additional cost would be minimal at the time of lens replacement since workers were already working on the fixtures.

However, we noted that the existing janitorial services contract for the complex included parts and labour for bulb replacement in the price.

- The Ministry enters into "unit price" contracts if:
  - the work is generic and can be reasonably priced on a per unit basis. In such cases, estimates are normally limited to determining the quantity of work to be performed; and
  - lower prices can be obtained because of the larger volume of work resulting from a unit price contract.

As a result of our 1984 audit, the Ministry developed policies and procedures governing unit price contracts. These included:

- unit price contracts are to be used only when the value of the unit price exceeds 50 per cent of the total work in a contract; and
- where a non-unit price component in the contract exceeds \$10,000, the unit price contractor must obtain a minimum of three competitive bids.

In our opinion, this addressed the issues in our 1984 report. **However, we were concerned about adherence to these policies and procedures.**

In reviewing a unit price contract which totalled approximately \$750,000, we found that only 35 per cent was for unit price work. The remainder was for sub-contracted work (\$336,000) and mark-ups (\$148,000).

This arrangement contravened the requirement that unit price work must exceed 50 per cent of the total work. **After reviewing the payments on this contract with us, Ministry staff agreed that some of the mark-ups should not have been paid.** We understood that the Ministry would attempt to recover these amounts.

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#### OPERATION AND MAINTENANCE SERVICE AGREEMENTS

##### Overview

Most building operation and maintenance services, previously performed by Ministry personnel, are now contracted out. Services which are contracted out include skilled trades such as maintaining and repairing elevators, heating and ventilation systems, and basic functions such as janitorial and security services.

Operation and maintenance services are normally acquired through a publicly advertised tendering process. Exceptions are made for elevator and air conditioning maintenance services which are normally acquired by negotiation with the equipment's manufacturer.

## Comments on Ministry and Crown Agency Audits

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Most operation and service agreements are for three-to-five years. Annual cost increases are permitted based on wage increases in the respective trades.

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### Contract Costs Appear Questionable

Where Ministry-prepared estimates vary significantly from the lowest bid or the negotiated price, the reasonableness of the price must be determined before the contract is awarded.

**However, for a number of agreements reviewed by us, the reasonableness of the estimated costs was not adequately demonstrated. The labour and material costs were not supported. In addition, variances between the Ministry's cost estimates and the contract price were not effectively reviewed and approved. Consequently, we questioned how the Ministry determined reasonableness prior to awarding the contract.**

For example, the Ministry estimated that a five-year elevator maintenance and repair agreement would cost \$535,000. The lower of the two bids received was for \$744,500, approximately 40 per cent above the Ministry's estimate.

The Ministry awarded the contract to the lower bidder. We were informed that the Ministry's estimate was based on a two-year agreement while the amount bid was for five years. Other available documentation suggested that the Ministry estimate was for a five-year agreement. If the Ministry estimated only for two years, its estimate would have been \$267,500 per year compared to the \$149,000-per-year bid.

Determining reasonableness is even more important for negotiated contracts. Contractors, aware of their unique position, may be tempted to overprice. For negotiated agreements, estimates were often based on the previous contract plus a factor for inflation. This practice might perpetuate previous uneconomical expenditures.

For example, we reviewed a negotiated elevator maintenance agreement for a major Government complex. A log of service calls had been maintained for six months prior to our audit. Our review of this log indicated that, on average, contractor staff spent 62 hours per month on site. The industry rate for service calls was approximately \$60 per hour plus an additional cost of 20 per cent for materials.

**The value of the service received was approximately \$4,500 per month. The contract required the Ministry to pay approximately \$13,000 per month.**

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### Excessive Costs of Negotiated Elevator Service Contracts

Previously, virtually all elevator service agreements had been negotiated with the particular manufacturer, rather than tendered. In the fall of 1986, Ministry staff reviewed and questioned this practice. As a result, a contract which had previously been negotiated, was awarded by public tender in 1987.

## Government Services

### Management of Government-owned Buildings

While payments under the previous agreement were \$6,900 per month, the low bid for equivalent service from another contractor was \$3,470. The Ministry accepted the low bid. The total savings on this five-year contract amounted to over \$200,000.

**The incumbent contractor bid a price of \$4,670 per month, over 30 per cent less than the amount previously paid under the negotiated contract.**

In the same district, there were 21 other negotiated elevator service contracts calling for a minimum payment of \$817,000 per year. **Based on a 30 per cent cost saving, we estimated that, in this district alone, tendering would have saved the Ministry more than \$1 million over the life of the existing agreements.**

Considering the close proximity of many of the buildings, further savings may have been realized by consolidating some of the 22 separate agreements.

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#### *COMPLIANCE WITH BUILDING CODES AND REGULATIONS*

##### **Non-compliance with Ontario Fire Code**

**The Ontario Fire Code mandates the inspection, testing and maintenance of fire alarm and protection systems, and related equipment. However, the requirements of the Code have not been adhered to.**

The Ministry of Government Services, in conjunction with other ministries, had discussions regarding requirements in the Fire Code. In a November 1988 document, three options were discussed:

- . Do Nothing;
- . Partial Compliance; or
- . Full Compliance.

The first two options were rejected as unacceptable. It was determined they had serious consequences such as the potential for damage or loss of life and property.

**It was estimated that full compliance would require an additional \$3 million in annual expenditures. In addition, "\$50 million may be needed to satisfy Ontario Fire Code retrofit requirements in health care facilities for the Ministries of Health and Community and Social Services."** However, the resources required have not been made available.

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##### **Non-compliance with Human Rights Code**

**Many Government-owned buildings did not comply with the handicapped accessibility requirements of the Human Rights Code.**

To remedy this situation, in June 1989, the Ministry announced a five-year \$38-million program to improve handicapped access to Ontario Government buildings.

## Comments on Ministry and Crown Agency Audits

### RESPONSE

The Deputy Minister responded on September 8, 1989.

#### NECESSITY AND PRIORITY OF REPAIR PROJECTS

*"The four 'priorities' cited, can more appropriately be viewed as categories which describe the nature of a proposed project, as a basis for establishing actual priorities for implementation within the context of the five-year repair planning process."*

#### Business Cases Not Detailed

*"The requirement for business cases demonstrating the necessity of proposed repair projects is a fairly recent innovation and was introduced when the requirement for the capital repair category was instituted in 1986. In order to familiarize all employees with the business case approach to project analysis, training programs have been developed to ensure proficiency. This training continues to be provided, while improved techniques are under development to enhance both the abilities of employees and the quality of results in project analysis."*

#### Repairs Did Not Proceed in the Assessed Order of Priority

*"While it is correct that some projects were introduced following the establishment of the 1988/89 program, it is important to note that all the projects referred to were included in the five-year repair plan. Recognizing the variability of the conditions affecting construction, flexibility must be provided to enable the prudent management of resources devoted to maintaining provincial properties. Effective this year, the need for flexibility has been recognized and made formal. The current five-year repair plan permits managers to move projects from the unfunded five-year program to the funded annual program, with the approval of the Executive Director, Property Management Division."*

*"The \$1.2 million cited in the report was allocated to projects in the Legislative Building, which maintains a high priority in considerations for funding owing to its function as the seat of government. All future repairs for the Legislative Precinct are now the responsibility of the Speaker."*

#### Splitting Large Repairs Avoids Assessment and Approval Process

*"The example provided identifies a project which was implemented in several phases, however, this was not done to avoid the approval process. The nature of these repair projects which were phased and sequential over a protracted time frame were judged to be a series of individual projects rather than a single project."*

*"Managers responsible for repair project implementation have been instructed that the division of large projects into smaller projects with the intent of avoiding the approval process, is prohibited. To enable the sound management of allocated funding and to provide flexibility to cope with emergencies, the phasing of projects may continue to be necessary. However, this will only occur with the approval of the Executive Director, Property Management Division."*

## Government Services

### Management of Government-owned Buildings

#### ECONOMY OF REPAIR PROJECTS

*"The ministry strictly adheres to the established Management Board procurement policy which emphasizes acceptance of the lowest qualified bid. The majority of ministry tenders are advertised, while those that are invited will have satisfied stringent criteria prior to approval for tender. Contract awards are made to the lowest qualified bidder, to safeguard the principle of fair and open competition."*

#### **Reasonableness of Accepted Bids Often Not Established**

*"The ministry has embarked on a program of project management training, and through this process intends to strengthen its management effectiveness. While guarantees cannot be made that all errors or omissions relating to project documentation will be eliminated, the ministry is committed to attaining the highest practical level of sound project management and to ensure that documented evidence is maintained."*

*"(For the two examples listed:)*

- Action was required to correct an urgent health hazard occasioned by the presence of toxic bat guano and asbestos. The laboratory had been evacuated and there was a degree of urgency to remove the hazard. To our knowledge no one had previously undertaken removal of these two toxic substances in combination.*

*Owing to the highly specialized nature of the work and the inability to accurately measure the quantity of toxic material present, the estimate had great potential for variance from the final contract cost. Worker productivity was also reduced by the specialized and potentially hazardous nature of the work. The extent of productivity loss was difficult if not impossible to predict with any certainty. . .*

*Tender documents were distributed to seven contractors who were deemed to be qualified based on prior experience in the removal of hazardous or contaminated materials. After finalizing the tender and receiving only one bid, the decision was made to award because it was judged unreasonable to disqualify the bid based on an estimate subject to a high degree of uncertainty. The industry would have viewed a decision to disqualify as unfair and unreasonable. The original estimate did not include removal of material from the entire building which was not recognized as a requirement until after the consultant's report was received.*

- The initial estimate of \$13 thousand per car to upgrade the elevators was provided by resident technical experts in elevating devices. On tender closing, the results were discussed at length and the decision to award was made, since in the judgement of the experts, market conditions at the time demonstrated that the tender amount was consistent with other similar upgrading projects. The market was, and still is, saturated with new device installations, owing to the high level of new construction. Elevator upgrades contain an element of financial risk on the part of the contractor, due to the uncertainty associated with determining the extent and cost of repairs to existing equipment. New installations are straightforward: the scope of work is precisely determinable, is fixed, and is subject only to minor risk of*

## Comments on Ministry and Crown Agency Audits

*variance. In addition, financial returns are readily predictable on new installations, which provide a considerable return for resources expended. For these reasons, contractors are concentrating their resources on new installations, and if they bid on upgrade projects they are likely to tender higher bids in order to guarantee themselves an adequate return."*

*"The Ministry has in place a process for determining the suitability or reasonableness of bids. Where bid project costs are over budget by 10 per cent, efforts are made to reconcile the best available price based on a new, more detailed estimate, or comparisons with previous projects.*

*"As described (earlier), contract awards are made to the lowest bidder to safeguard the principle of fair and open competition, while ensuring the least cost services at the time of tendering. The construction industry is subject to market variations to a greater degree than other industries. While decisions can be made to defer a project until market conditions improve, this is not always safe, practical or economical, especially when the project involves the repair of a building component, the failure of which could have serious health and safety consequences. The ministry is experienced and knowledgeable in the construction industry, and is confident that its decisions to award contracts provide the highest degree of value for money expended."*

### **Inadequate Controls over Change Orders**

*"The Ministry disagrees with the general comments on change orders since its policy requires justification of the need for a change order, an accurate estimate of the cost and the careful determination that costs submitted are reasonable."*

*"Our original contract did not indicate the extent of asbestos on the project at that time. Regulations concerning asbestos did not come into effect until March 1986 imposing additional liability on the Ministry and subsequently the contractor. A change order was essential to recognize this liability and concurrent cost escalations.*

*"Consequently, tenders were called and competitive prices were obtained through the mechanical sub-contractor because the asbestos had to be removed before the mechanical contractor could install the boilers and pipes. This dictated the need for a change order. Conversion had to be completed between heating seasons, so time was of the essence.*

*"Mark-ups paid to the contractor were in accordance with Ministry policy, as contained in the contract documents and general industry practice.*

*"It is the opinion of the ministry that under the circumstances it was impossible to avoid a change order.*

*"During implementation of the project cited in the (second) example, a stop-work order was issued owing to the presence of asbestos. In order to continue, the ministry was required to employ a qualified consultant and contractor to deal with safe handling and removal of asbestos from the ceiling. New legislation governing asbestos handling came into effect during project execution.*

## Government Services

### Management of Government-owned Buildings

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*"Another factor contributing to cost overruns, was the insistence of the client on changes during construction since this was a cost recoverable project charged to the client."*

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#### Questionable Payments

*"The replacement of lenses and cleaning of fixtures which required the removal and replacement of all bulbs, was undertaken to produce significant energy savings.*

*"The janitorial contract requires replacement of bulbs as they fail, and has no provision for complete replacement. It was impractical to coordinate the lens installation and cleaning with the replacement of failed bulbs, since this procedure could have taken years rather than weeks to complete. It was necessary to replace all bulbs to enable the assessment and adjustment of lighting levels on completion of the conversion in order to achieve the energy savings. The janitorial contractor will replace these bulbs as they burn out as part of his contract.*

*"(Re the unit price contract) the ministry is continually striving to improve its project management practices. Since completion of the project cited in this example, measures have been taken to improve control over unit price contracts. New units of production have been added to the most recent tender document to reduce the amount of potential work requiring sub-trades. New policies and guidelines related to unit price contracts have been developed and published. A local audit process has been developed and project management training has been initiated to instill appropriate skills in employees who manage unit price contracts. A standard estimate form has been published, which will facilitate an analysis of unit price versus subcontracted work at the outset of a project, before commitments are made to a contractor. Finally, the ministry is developing a standard form for calculation of the value of work performed prior to progress and final billings, to provide even better control on the calculation of premiums and mark-ups.*

*"With regard to the project cited by the auditors, our intention during project planning was that unit price work would comprise approximately 50% of the total; however, requirement changes during the project resulted in an increase of the subcontract portion.*

*"... Our position is that the Ministry erred in paying a mark-up on the carpeting, and we have already begun to recover a total of \$68,000 in overpayments, which includes this and other mark-ups. ..."*

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#### OPERATION AND MAINTENANCE SERVICE AGREEMENTS

##### Contract Costs Appear Questionable

*"Contract tender calls for which the lowest available bid is above pre-tender estimate are evaluated against either a new, more detailed estimate, comparisons with previous tenders or knowledge of marketplace rates as determined through contracts with private sector consultants.*

## Comments on Ministry and Crown Agency Audits

*"Although sufficient documentation was unavailable in the files; it is evident that the reasonableness of the cost of this contract is justifiable. The previous contract was for \$148,050 per annum and the new contract is for \$149,000 per annum which is less than 1% increase."*

*"To base an evaluation of the entire contract on a short term snapshot where only normal service calls may have been required fails to account for critical situations that could occur over the five year period when significant amounts may have been paid by the contractor to meet his obligations. The \$60 rate quoted is for normal service calls and not for highly qualified specialist adjusters which are significantly higher."*

### Excessive Costs of Negotiated Elevator Service Contracts

*"Negotiated contracts have the advantage of providing for reliable and qualified comprehensive maintenance services, and are especially suited to the provision of maintenance of highly specialized equipment, whose failure could endanger health and safety and expose the government to severe damages for liability."*

*"The tendered maintenance contract cited provides a rare example of the benefit which can accrue to the ministry in a highly competitive market. The successful contractor undercut prices in an aggressive attempt to increase market share, a condition that existed at that point in time and it may not occur in future."*

*"On the issue of consolidating separate service agreements for buildings in close proximity, the ministry accounts for proximity during its negotiations and insists that the costing structure in any agreement reflects the potential financial benefit deriving from proximity."*

*"The general practice in the private sector is to use negotiated contracts for maintenance of all specialized equipment. Despite this practice, the ministry has begun a move away from negotiated contracts in an effort to foster increased competition. However, in the presence of highly specialized needs in unique buildings, negotiated contracts may be employed."*

### COMPLIANCE WITH BUILDING CODES AND REGULATIONS

*"The ministry has demonstrated a significant commitment to codes compliance. A Codes Compliance Committee has been established to develop compliance initiatives, and consultants have been engaged to determine the full extent of ministry compliance with codes across the province. Cabinet approval has been received to implement a Barrier Free Access program for the modification of buildings which lack sufficient accessibility. Initiatives to comply with the Occupational Health and Safety Act, the Environmental Protection Act, the Ontario Fire Code, the Workplace Hazardous Materials Information System, Asbestos Regulations, the Gasoline Handling and Window Washing Acts, and regulations governing PCBs, are all underway."*

*"A staff training and development program covering all aspects of codes compliance, has been established and is being implemented."*

## Health

### Land Ambulance Services

#### 3.9 Deficiencies in Funding and Monitoring of Operations, Land Ambulance Services, Ministry of Health

The Ministry paid \$108 million in the 1989 fiscal year to 167 land ambulance services, located throughout the Province. Approximately two-fifths of these services are run by hospitals, two-fifths by private operators, and the balance by volunteer organizations and municipalities.

#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit objectives were to assess whether:

- . annual financial settlements with ambulance operators were adequately administered; and
- . the operations of ambulance services were being appropriately monitored.

We carried out most of our work at the Ambulance Services Branch and at its six Regional offices.

#### CONCLUSIONS AND FINDINGS

##### *AMBULANCE OPERATING EXPENSES*

**The administration of financial settlements required substantial improvement.**

- . **Most operators submitted settlement reports late. In addition, over 20 per cent of the 1987 and 1988 settlement reports had not yet been reviewed by the Ministry.**
- . **In many cases, the Ministry did not have adequate audit verification of settlement information provided by private operators.**
- . **There have been financial difficulties with some private operators. The Ministry is experimenting with the use of alternative arrangements for the funding of ambulance services.**

##### *MONITORING OF AMBULANCE SERVICES*

- . **Overall the annual inspections of ambulance services were satisfactorily performed. However, follow-up activity was lacking.**
- . **Ambulance response time information is inadequate for comparison with established standards and commitments.**

#### BACKGROUND

The purpose of the Ministry's Emergency Health Services Program is to reduce death, disability and suffering due to sudden illness or injury. Land ambulance services are one of the components of this program.

In addition to responding to medical emergencies, ambulances transport patients in situations which are not emergencies, such as transfers between hospitals. In

## Comments on Ministry and Crown Agency Audits

the 1988 fiscal year, emergency calls represented approximately one-half of the over one million calls received for ambulance services.

Regulations under the Ambulance Act deal with ambulance service licensing, attendant qualifications, vehicle and equipment standards, record-keeping and reports, and the operation of ambulances.

### COMMENTARY

#### AMBULANCE OPERATING EXPENSES

##### Overview

Under the Ambulance Act, the Ministry reimburses ambulance operators for the actual cost of ambulance operations. Generally, the Ministry provides funds to ambulance operators in advance of their actual spending. Payments are made semi-monthly based on the prior year's advances adjusted for inflation.

After the end of the fiscal year, the Ministry settles its accounts with each of the operators. If advances exceeded actual costs, the difference would be recovered from the operator. On the other hand, if advances did not cover actual spending, the additional funds would be provided by the Ministry. In addition, the settlement process is critical in determining that funds were properly spent, and in recovering disallowed expenditures.

Ambulance operators must maintain proper accounting records, and submit audited financial statements and other settlement information to the Ministry within 60 days of the end of the fiscal year.

Funding arrangements with Metro Toronto differ from the above and were not part of the audit scope.

##### Deficiencies in Funding

###### *Settlement Submission and Review Not Timely*

**We found that most settlement reports were submitted after the 60-day due date of May 31. We also found that 20 per cent of the fiscal 1987 settlement reports and 27 per cent of the fiscal 1988 settlement reports had not yet been reviewed.**

These delays had the following implications.

- The Ministry did not recover funds promptly for advances made in excess of actual spending or for ineligible expenditures. This over-funding might also have been reflected in the subsequent year because annual funding is not based on actual spending but on the prior year's funding. Furthermore, the problem of recovering funds becomes even more difficult with time.
- Some operators experienced financial hardship and services were jeopardized when advances were insufficient to cover actual spending. For example, the Ministry owed a private ambulance service money for each of the last three years, totalling \$48,000. As a result, the service experienced severe cash flow difficulties.

## Health

### Land Ambulance Services

#### *Inadequate Audit Verification of Settlement Information*

The Ambulance Act requires financial statements of private operators to be audited and separate from any other business activity of the operator. These audits of separate statements are essential in that they provide independent verification that the operating expenses claimed are accurate and complete, and that expenses unrelated to the ambulance service have not been included.

However, this key control was not being enforced by the Ministry. In particular, **we were concerned that, for over one-half of the private operators, the financial statements for the 1988 fiscal year reflected information from other business activities in addition to those of the ambulance service.**

The deficiencies in the submission, review and audit verification of settlement reports are particularly important since, for several years, the Ministry has experienced difficulties with some private operators relating to funds provided by the Ministry.

#### *Difficulties with Some Private Operators*

The extent of the difficulties experienced with some of the operators was evident from our review of internal audit reports, financial information submitted by operators, inspection reports, and the activities of the Legal Services Branch. **Difficulties included claiming ineligible expenditures and lending money from ambulance operations to related entities.**

Ministry inspections designed to ensure compliance with the Ambulance Act and Regulations have identified other situations where there was little supporting documentation to justify expenses claimed. Examples included incomplete payroll time cards, unsupported overtime, and unexplained payroll expenses.

We felt that a major reason for many of these financial difficulties was the system of funding in advance. As of June 1988, Ministry information indicated that private operators had over \$5 million in excess cash. Since private operators receive substantial funds in advance of their services' actual needs, there is the opportunity for misuse.

**To address the difficulties experienced with the private operators, the Ministry has been experimenting with the use of service contracts/invoicing arrangements to replace the existing method of funding ambulance services.** Since April 1988, this has involved three services with expenditure totalling approximately \$1 million annually.

Payments made to these operators are for actual spending rather than being based on the prior year's advances. This arrangement requires operators to obtain a line of credit with a bank to finance the operations of their ambulance services.

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#### MONITORING OF AMBULANCE SERVICES

##### Overview

The monitoring of land ambulance operations is carried out through the activities of the Ministry's 12 dispatch centres and Regional Offices.

## Comments on Ministry and Crown Agency Audits

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Dispatch centres receive calls for ambulance services and, therefore, are aware of response times, vehicle availability and usage, delays in responding to calls, geographic distribution of calls, and complaints from the public. The centres inform the Regions of any areas of concern.

Regions also receive information such as ambulance call volumes and response times, and reports on inspections.

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### Annual Inspections and Follow-up Activity

The Minister has the authority under the Ambulance Act to appoint inspectors for the purpose of ensuring compliance with the Act and its Regulations. For example, the inspectors ensure that attendants meet minimum training requirements and that vehicles and equipment conform to required specifications.

Inspections of ambulance services are to be performed on an annual basis and inspections of dispatch centres are to be completed three times a year.

Instances of non-compliance and other problems noted, are to be brought to the attention of the Regions and the Head Office. Regions are then responsible for following up, and ensuring timely, corrective action is taken. Where serious deficiencies are reported in the initial inspection, a follow-up inspection is to be carried out within 90 days.

**Overall, the required routine inspections were being performed satisfactorily. We were concerned, however, that many reports resulting from these inspections were not issued on a timely basis. In addition, most follow-up inspections were not being done. We found that:**

- . 24 of 63 inspection reports reviewed were not finalized and distributed until more than 30 days after the inspection.
- . 10 of 14 follow-up inspections were not performed.

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### Need for Ambulance Response Time Information

The Ontario Ambulance Services Information System compiles information on all ambulance calls in Ontario. This includes information such as vehicle utilization, the volume of calls and response times.

Response time consists of three components: the time from when a call is received by a dispatcher until the crew is notified (dispatch-reaction time); the time from when the crew is notified to the time the crew departs the station (crew-reaction time); and the time from when the crew departs the station to the time it arrives at the scene (traveling time).

The Ministry has set standards for the dispatch-reaction time component of response time and receives commitments for crew-reaction time from each operator. However, the Information System does not isolate the components of actual response time. Hence, **comparison to the dispatch-reaction time standard and crew-reaction time commitments cannot be done.**

## Health

### Land Ambulance Services

#### RESPONSE

The Deputy Minister provided the following response to our findings.

#### AMBULANCE OPERATING EXPENSES

##### **Deficiencies in Funding**

###### *Settlement Submission and Review Not Timely*

*"We agree that timely settlement submissions, within the current 60 day limit, are often difficult for some of the services, many of which are located in remote areas of Northern Ontario. Audit firms are often not located in these communities and the services must wait for their auditors to travel to their communities during the summer months. In addition, the 66 hospital services are often late because their ambulance records are not audited until the hospitals' own records are reviewed.*

*"The Ministry is in the process of amending the Regulations of the Ambulance Act to revise the submission date from 60 days to 90 days after the year end. This is being done on the advice of the Canadian Institute of Chartered Accountants and on our review of other provincial and federal legislation which allows up to six months for submission of financial statements from corporations."*

*"The Ministry would point out that as the settlements are received, they are subject to an interim review. During this review, cash balances owing to the Ministry are identified and recovered immediately."*

###### *Inadequate Audit Verification of Settlement Information*

*"Although some of the private operators have included information from other activities in their audited financial statements, the Ministry has been able to assess the statements and take appropriate action. Currently, the Ministry has difficulty with only two of the operators, one of whom submitted combined financial statements. The Ministry has recognized this problem and has requested the operators to comply with its guidelines on separate financial statements."*

###### *Difficulties with Some Private Operators*

*"The current system of funding in advance is normal operating procedure for transfer payment programs in the Ministry. Interest earned on cash advances by the operators accrues to the Ministry.*

*"The current cashflow advances to operators are based on an analysis of their probable expenses for the year. The funds are paid in advance in 24 equal payments. The actual costs of operators vary from month to month since some expenses are cyclical. For example, vacation pay is usually paid in the summer while payments for unused sick days are made at year end.*

*"In recognition of the foregoing, the Ministry is of the opinion that the current funding system is appropriate. Reductions in the level of current advances could jeopardize existing operations.*

*"The Ministry funds some new operators through an invoicing system on an experimental basis. This is being done in consultation with the Ontario Ambulance Operators Association, (OAOA)."*

## Comments on Ministry and Crown Agency Audits

### MONITORING OF AMBULANCE SERVICES

#### ***Need for Ambulance Response Time Information***

*"The Ontario Emergency Health Service is the largest standardized system in North America. It is regulated under the Ambulance Act. The service utilizes standard vehicles, requires a high level of qualifications for full-time ambulance attendants, operates an integrated air and land ambulance capability, receives calls from the public and dispatches ambulances through a series of central ambulance communication centres.*

*"The Ministry has in place standards for two of the three components of response time and monitors and pays careful attention to the third.*

*"A standard of one minute has been adopted as the time for a dispatcher to receive a call from the public and assign it to an ambulance crew.*

*"A two minute standard relates to reaction time which is the time from the point at which the ambulance dispatcher notifies the ambulance crew of the call until the crew is mobile in the ambulance and enroute to the scene.*

*"The third component of response time is the time required to travel from the ambulance station to the patient's location. There are a number of factors which affect this component including traffic density on the roads that ambulances must use, weather conditions at the time of the response, and the call demand on the ambulance fleet at any given moment. These variables preclude the establishment of set standards for the third component.*

*"The Ministry does monitor all components and is currently endeavoring to improve its information reporting system in this regard . . ."*

### **3.10 Classification System Poorly Maintained, Human Resources Secretariat**

The Human Resources Secretariat was established in March 1986. The Secretariat is the corporate advocate for promoting the best practices in human resources management and, as such, provides advice and support to ministries.

The 1989 fiscal year expenditures for the Secretariat's Human Resources program were \$21.3 million (Vote 2404).

### **SUMMARY**

#### **SCOPE AND OBJECTIVES**

Our audit focused on the initiatives taken by the Secretariat to provide direction through planning, development and monitoring of Government-wide policies. Our audit objectives included assessments of whether:

- . the position classification system used for Management and Bargaining Unit employees was properly maintained;
- . controls over grievances with service-wide significance were sufficient; and
- . ministry action plans and results related to the Strategies for Renewal initiative were adequately evaluated.

## Human Resources Secretariat

### Position Classification System

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#### CONCLUSIONS AND FINDINGS

##### *ADMINISTRATION OF POSITION CLASSIFICATION*

The Secretariat has not performed sufficient maintenance on the classification system. In particular:

- More than 60 per cent of the existing classification standards for the Bargaining Unit were 20 or more years old.
- Grievance Settlement Board decisions contained many references to outdated standards and the classification problems created as a result.
- The use of atypical classifications within the Bargaining Unit also provided evidence of an outdated classification system. Over 20 per cent of the employees in one category of the Bargaining Unit were atypically classified.

The Secretariat was not performing any formal co-ordinating and/or monitoring of classification duties delegated to the ministries.

##### *GRIEVANCE PROCEDURES*

The system lacked overall control of grievances with service-wide significance. There was little opportunity to co-ordinate and assess grievances prior to their presentation to the Board.

##### *STRATEGIES FOR RENEWAL*

The Secretariat was adequately monitoring the ministries' performance against program objectives. However, the success of the program depends on the ability of ministries to manage conflicting priorities.

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#### BACKGROUND

In 1986 the Moher report, "Managing Human Resources in the Ontario Public Service," was issued. This report concluded that a new framework for human resources management was required to meet the needs of the public service.

In response, the Human Resources Secretariat was established in March 1986. A Deputy Minister, responsible to the Chairman of Management Board of Cabinet, was appointed. Authority for policy development and administration of human resources management was assigned to the Secretariat.

The Secretariat, as corporate advocate, has the responsibility for promoting the adoption and ensuring the maintenance of systems that support the best practices in human resource management.

Most of the responsibilities dealing with the actual administration of human resource policies were delegated to the ministries, with the Secretariat responsible for monitoring adherence to corporate policies on a Government-wide basis. The monitoring function was to be performed in conjunction with monitoring by the internal audit departments of the various ministries.

## Comments on Ministry and Crown Agency Audits

### COMMENTARY

#### ADMINISTRATION OF POSITION CLASSIFICATION

##### Overview

The Secretariat's Pay and Classification Branch responsibilities include developing, maintaining, and monitoring classification and job evaluation systems and pay policy.

The Ontario Public Service includes approximately 70,700 "classified" staff. Classified staff are split into three groupings for compensation purposes: the Executive Compensation Plan (700), the Management Compensation Plan (15,000), and the Bargaining Unit (55,000). The Management Compensation Plan and Bargaining Unit are further divided into modules or categories, occupational groups, and class series. The Ontario Public Service also includes approximately 15,000 "unclassified" staff, who are appointed for a defined term (contract), on a part-time or full-time basis.

The basic evaluation components of classification systems are position specifications detailing the work required by particular positions (job descriptions), and classification standards against which these job descriptions are compared. Based on this comparison, the positions are assigned to a level within a classification. Each classification level has a pay grade.

Some staff are covered by a classification system that is based on an analysis of skills. However, the predominant system is a grade description plan. This plan revolves around specific tasks rather than the generic skills required for the position. Therefore, it requires extensive maintenance.

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##### Insufficient Maintenance of Classification Standards

Our audit focused on whether the classification standards were being maintained. The classification system should be kept current through regular maintenance in order to ensure that classification of positions across the Ontario Public Service is consistent.

**Our review of the classification standards revealed insufficient maintenance. In excess of 60 per cent of the existing classification standards for the Bargaining Unit were 20 or more years old. As classification standards become obsolete, these standards no longer effectively describe current positions.**

To illustrate the dated nature of many of the classification standards, one such standard, revised September 1961, lists among the required qualifications a "pass standard (60 per cent) in the Departmental preliminary and course examinations." Our discussions with ministry officials indicated that these examinations were discontinued in 1967.

The Crown Employees Collective Bargaining Act establishes the statutory framework through which the Bargaining Unit employees may grieve their classifications when inequities exist. These grievances are heard before the Ontario Crown Employees Grievance Settlement Board. **Our review of Board decisions indicated many references to the outdated standards and resulting classification problems.** Examples of these decisions included:

## Human Resources Secretariat

### Position Classification System

- Highway Equipment Operator 3s (November 1986 Board decision). The Board, in awarding in favour of two of the four grievors, stated that the classification standards "are so outdated as to be almost useless." Approximately 112 employees were classified within this standard. The standard has still not been updated.
- Probation Officers (October 1986 Board decision). The Board in awarding in favour of several grievors stated: "Various panels of the board have often been critical of the fact that unrevised classification standards have not kept up with the realities of particular jobs. We share that view." Furthermore, "the Board need no longer wrestle with the difficulty of comparing the incomparable. It can effectively order a revision of obsolete standards." Approximately 95 employees were classified within this standard. The classification standard was recently revised.

The use of atypical classifications within the Bargaining Unit also indicated that the classification standards require revision. Atypical classifications result when an individual in an existing or new position is performing work which does not clearly meet the criteria for any of the existing classification standards.

In technical positions heavily influenced by technological change, extensive use of atypical classifications would be expected if grade description standards are not updated. Indeed, **a report prepared in early 1988, noted that over 20 per cent of the employees in one of the technical categories were atypically classified. In this category, approximately 70 per cent of the classification standards were prepared/revised prior to 1970.**

Old grade description standards may also be difficult to administer. For example within a series of classification standards a position was defined as a "skilled craftsman" and the next senior position defined as a "highly skilled craftsman." These standards are extraordinarily subjective, and hence, are difficult to administer precisely.

**Because of the lack of maintenance of classification standards, significant time and resources would be required to bring the system up to date or to implement alternative job evaluation systems.**

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#### Lack of Central Co-ordination/Monitoring

The Public Service Act allows for the delegation of duties regarding position classification. The classification of positions in both the Management Compensation Plan and the Bargaining Unit have been delegated to the ministries.

This delegation of duties does not absolve the central agency (Human Resources Secretariat) from ensuring that position classification is properly administered across the Ontario Public Service. **Our audit revealed that the central agency was not performing any formal co-ordinating or monitoring procedure.** Therefore, it was unclear how the central agency was accountable for the administration of the classification system delegated to the ministries.

## Comments on Ministry and Crown Agency Audits

The Pay and Classification Branch monitored the administration of position classification in the ministries until 1987. The monitoring included information on the accuracy of position classification decisions and the extent of exposure to "classification creep" across the Public Service. Classification creep is the reclassification upward of positions to justify a higher pay grade when the underlying work remains unchanged. In its last available monitoring report, prepared in 1987, the Branch estimated that a pay grade creep of 0.5 of a pay grade could increase existing annual payroll expenditures by \$74 million. This warrants monitoring.

Central agencies have a role to play in dealing with service-wide issues like position classification. An implicit goal of the classification system is the fair and consistent treatment of employees across the Public Service. Without central agency co-ordination, the ministries, as autonomous entities, could act independently. Inconsistent treatment of employees is a likely result.

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### GRIEVANCE PROCEDURES

#### Overview

The Staff Relations Branch has responsibility for collective bargaining, and for providing leadership in policy development and assistance to ministries in the conduct of labour relations. In addition, the Branch and the staff relations sections in ministries have collective responsibility for the grievance and arbitration process.

Public servants in Ontario are prohibited by statute from participating in strikes or lockouts. However, a public servant may file a grievance related to dismissal, working conditions, or terms of employment. The grievance procedures are set out in the Public Service Act, Crown Employees Collective Bargaining Act and various collective agreements.

Grievance procedures are designed to resolve disputes early in the process through informal contact between the grievor and the grievor's immediate supervisor. If the matter cannot be resolved at this stage, a grievance is presented in writing to the supervisor. If still unresolved, the grievance proceeds to the deputy minister or designee for a decision. Until the completion of this stage, a grievance is handled internally within the ministry.

If still unsatisfied, the grievor may apply to one of the independent Grievance Settlement Boards for a formal hearing. Their decisions are final and are binding on both parties.

The major Government parties responsible for processing of employee grievances are the line management and human resources branches of the ministries involved. The Branch role is restricted to an advisory and consultative capacity. Ministries that have the expertise to prepare and present submissions to a Board may consult with the Branch at their own discretion. Ministries with infrequent grievances may seek more extensive assistance including having the Branch present the submission on their behalf.

## Human Resources Secretariat

### Position Classification System

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#### **Lack of Centralized Control of Grievances with Service-wide Implications**

Our audit focused on the grievance aspect, concentrating on those grievances arising out of collective agreements with the unions.

**The system lacked overall control of grievances with service-wide significance. There was little opportunity to co-ordinate and assess grievances prior to their presentation to the Board.**

The Branch officials contact the staff relations officers of each ministry monthly. They have the officers describe cases with service-wide implications that are scheduled to go before one of the Boards. This contact is normally informal and the specifics of the cases are not provided to the Branch. The Branch, therefore, relies on the judgement of ministry officials in determining whether there are service-wide implications related to the cases.

However, ministries may improperly communicate or underestimate the importance of a case and its service-wide implications. In such instances, the Branch would not find out until after the case had been presented by the ministry and a final decision had been rendered. At this point it is too late to change the Government's position.

**During 1988, the Branch reviewed the summaries of 68 cases which were decided in favour of the employee over the past year. The results indicated that six of these cases dealt with new issues that had service-wide implications. They were handled by inexperienced presenters. In most of these cases, the Branch was unaware of the case details and service-wide implications.**

A ministry's loss of an individual case can have repercussions not only in dollars but in the way personnel policy is administered throughout the service as a whole. In these circumstances, the individuals involved with the case presentation should have detailed knowledge of service-wide issues including their effect on the collective bargaining process. Without this knowledge, the Government's position may appear to be inconsistent across the public service.

In one case, several classification grievances covering two classification levels were filed by individuals at one ministry. The ministry decided to present one grievance before the Board. Based on the decision, the ministry would adjust both classification levels.

In the case:

- . No witnesses were called.
- . The ministry based its defence on an argument which had been dismissed by the Board in the past.
- . There was only one grievance designated. Normally, when there are several classification grievances by employees with similar duties, a ministry designates a few as test cases.

## Comments on Ministry and Crown Agency Audits

- The Board concluded that the employee was improperly classified, awarded a large retroactive settlement and obligated the parties to rectify the situation.
- The ministry rewrote the class standards. The ministry ignored the Branch's warning of flaws in the wording that could cause problems if the union applied for higher salary ranges.
- An application, now under review, may result in considerably higher salaries. This is due in part to the wording of the revised class standards.

This case illustrated the need for experience in, and knowledge of, cases with service-wide implications.

Subsequent to our review, the Secretariat set up an intra-ministry task force to study the grievance process and recommend changes, where necessary.

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### STRATEGIES FOR RENEWAL

#### Overview

The Human Resources Secretariat introduced a major planning initiative, entitled "Strategies for Renewal," in December 1986. The program was established as the result of concerns by the Secretariat that "without conscious, planned intervention, the Ontario Public Service would enter the 1990s with a workforce out of step with society."

The program was designed to rejuvenate the Public Service, ensure its composition better reflected Ontario's diversity, and provide more open access to Service jobs.

Detailed objectives and specific goals were developed and communicated to all ministries. Ministries were instructed to incorporate these Government-wide initiatives into their future human resource action plans.

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#### Procedures Adequate for the Review of Ministry Plans and Results

The Strategies for Renewal process requires each ministry to complete and submit annually, actions planned to achieve the objectives of the program. A results report, also produced annually, allows the ministry and Secretariat to monitor progress towards the achievement of planned initiatives.

Our review included the 1988 fiscal year action plans and results, as well as any 1989 and 1990 fiscal year plans available at the time of audit.

The Secretariat was adequately monitoring the ministries' performance against program objectives. There was significant improvement in the quality of information provided to the Secretariat in the second year of the initiative.

## Human Resources Secretariat Position Classification System

### Initiatives and Hindrances in Achieving Program Objectives

In their responses to the Secretariat, some ministries indicated difficulties in achieving the desired results in the short term. Salary and wage constraints, loss of salary dollars from the Voluntary Exit Option program, restrictions on hiring, and conflicting initiatives and priorities of government were among the hindrances cited in achieving objectives.

The ultimate success of the Strategies for Renewal program depends on the co-operation of all ministries and the ability of the Secretariat to clearly demonstrate the need for Government-wide workforce initiatives.

### RESPONSE

The Human Resources Secretariat responded on September 11, 1989.

#### ADMINISTRATION OF POSITION CLASSIFICATION

*"The Secretariat concurs with your findings with respect to the need to review the existing classification systems. The urgency which is signalled in your report is shared by HRS and, we believe, by the Human Resource community at large.*

*"Indeed, HRS and Personnel Council have launched a joint project aimed at a complete review of the current systems. The magnitude of the task, however, cannot be overstated. Not only must this project have ministry support, but, where the bargaining unit is involved, union involvement and commitment are essential. Indeed the current arrangements require that any changes to the classification systems be negotiated.*

*"Much could be said about why the current systems are out of date. The current degree of obsolescence has resulted in the full time involvement of many human resource personnel, both within HRS and in ministries in patching the system. The project we are contemplating will involve those individuals to focus on a complete overhaul of the systems.*

*"Your recommendation that the Secretariat return to its previous role of providing central co-ordination or monitoring of delegated classification is one that we shall examine carefully. At issue is the role that a central agency should perform in an activity that has been substantially delegated to the field. The issue is a balancing one - the autonomy of ministries versus the need for a mechanism to ensure consistency of application. This will also be addressed by the classification project described above."*

#### GRIEVANCE PROCEDURES

*"As noted, an interministerial task force has been established and is already at work with a view to rationalizing the grievance process. The recommendations in this regard will be incorporated as part of the task force study and recommendations."*

#### STRATEGIES FOR RENEWAL

*"We are pleased with the positive findings on this program."*

## Comments on Ministry and Crown Agency Audits

### 3.11

#### **Better Controls and Enforcement Required, Fisheries and Wildlife Management Activities, Ministry of Natural Resources**

The Ministry of Natural Resources spent \$68.4 million in the 1989 fiscal year to protect and rehabilitate Ontario's fish and wildlife population and their habitats (Vote 2703, Items 2, 3).

#### **SUMMARY**

#### **SCOPE AND OBJECTIVES**

Our review of the Fisheries and Wildlife Management Activities of the Outdoor Recreation Program was conducted at the Head Office in Toronto, one of the Ministry's eight regional offices, and four of its 47 district offices. The district offices selected were Napanee, Owen Sound, Parry Sound and Lindsay.

Our audit objectives were to assess whether:

- . the issuing of hunting and fishing licences was properly controlled;
- . fish and wildlife enforcement and other key activities were efficiently administered by staff.

#### **CONCLUSIONS AND FINDINGS**

##### **REVENUE**

**Controls over the issuing of licences were unsatisfactory.**

- . Inadequate control of licences distributed to issuing agents in 1987 contributed to an estimated loss in revenue of up to \$1 million.

##### **ENFORCEMENT ACTIVITIES**

**Better planning and monitoring of the enforcement effort were necessary to ensure Conservation Officers were utilized in an efficient manner.**

- . Enforcement plans and activity reports were not in place in many instances.
- . Significant variations were noted in enforcement among regions. For instance, one region was seven times more likely to lay a formal charge than issue a warning, while an adjacent region was four times more likely to issue a warning than lay a charge.
- . Work schedules do not adequately recognize periods of high activity. Weekends and holidays are generally lightly staffed.
- . Enforcement efforts in the Great Lakes were insufficient to discourage both illegal fishing and the possible sale of contaminated fish. One Ministry investigation revealed at least 610,000 pounds of fish that had been illegally caught.

## Natural Resources

### Fisheries and Wildlife Management Activities

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#### NON-ENFORCEMENT ACTIVITIES

Non-enforcement staff were successfully conducting activities designed to protect and rehabilitate fish and wildlife populations and their habitats.

- . The information enhanced the Ministry's ability to undertake a more cost-effective program.
- . Preliminary assessment of water suitability, fishing demand and stocking methodology were carried out consistently. However, insufficient post-assessment work was being done to measure the success of stocking efforts.

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#### BACKGROUND

The Fisheries Management Activity protects, rehabilitates and enhances Ontario's fish population and its habitat in order to provide opportunities for recreational and commercial fishing. Major functions of this Activity include:

- . licensing of anglers and commercial fishermen;
- . rehabilitating fish populations through stocking activities; and
- . regulating the fish harvest through the establishment and enforcement of seasons, quotas, etc.

The Wildlife Management Activity develops and enforces policies and programs related to the major game and non-game species and co-ordinates the management of their habitat. Major functions include:

- . issuing licences to trappers, fur dealers and hunters; and
- . updating and enforcing hunting regulations.

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#### COMMENTARY

#### REVENUE

##### Overview

Hunting and fishing licences are required as part of the Ministry of Natural Resources' "user pays" philosophy for covering program costs. There are currently 53 types of licences. Total 1988 fiscal year licence revenues were \$30.3 million, less than half of total expenditures for the Fisheries and Wildlife Activities.

Licensing agents include fishing tackle and hunting equipment stores, hardware stores, as well as the Ministry's district offices. With the introduction of the Resident Sport Fishing Licence and the Ministry's commitment to easy accessibility to these licences, the number of outside issuers more than doubled, from 1,900 at the end of 1986 to 3,900 as of November 1988. Every year the Ministry sends each agent a block of blank licences to sell. The agent only remits funds for licences which are sold. A commission is earned on the sale of each licence.

## Comments on Ministry and Crown Agency Audits

### Inadequacies in Licence Issuing Process

#### *Inaccuracies in Licence Issuing*

Our review of the Resident Sport Fishing Licence showed that, in 1987, these licences were not pre-numbered. The licences sent to each agent were weighed in order to estimate the number sent. As a result, some issuers received more licences than recorded and some received less. For example, one issuer's account showed that 10 licences had been issued. However, 50 licences were sold and reported by the same issuer, resulting in a negative inventory of 40 licences on the agent's account. Of greater concern was the possibility that issuers receiving extra licences could sell them and keep the proceeds.

Using the estimate provided by a joint federal-provincial survey on the number of sport fishermen in the province, **we estimated that up to a million dollars in Resident Sport Fishing Licence revenues may have been lost in 1987 because the Ministry did not pre-number or count the licences distributed to each agent. Commencing in 1988, licences were pre-numbered but the numbers were not used to control their disposition.**

#### *Inaccurate Declarations of Missing Licences*

If issuers do not receive the number of hunting and fishing licences and stickers the Ministry has recorded and invoiced them for, they can sign a Statutory Declaration of missing licences. The Ministry may adjust their inventories accordingly.

**In the 1988 fiscal year, over 10,500 angling licences worth about \$127,000 were reported missing. This represented a 46 per cent increase in the value of licences reported lost over the previous year.** The Ministry indicated that the significant increase in licences missing may have been, in part, due to the large increase in outside issuers.

We were concerned that agents had sold the licences and, rather than remitting the proceeds, filled out the Declaration reporting the licences as missing. For example, we observed in one district that an issuer had made a Statutory Declaration for 20 lost hunting licences. This declaration was approved by the district manager. However, a subsequent spot check by Head Office staff indicated that these licences had been sold.

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### ENFORCEMENT ACTIVITIES

#### Overview

A Conservation Officer, appointed under the Game and Fish Act, is responsible for laying charges for all violations under various related Provincial Acts and is also required to enforce related Federal Acts. Under these Acts, regulations are in place to control hunting, fishing and commercial activities by restricting the number of fish and wildlife that can be harvested and the seasons in which harvesting is allowed. In the 1988 fiscal year, over one million square kilometers were patrolled by the enforcement group. Over 7,500 charges were laid under the Acts, primarily under the Game and Fish Act.

## Natural Resources

### Fisheries and Wildlife Management Activities

As of June 1988, the Fish and Wildlife Branch had an enforcement staff of 240 Conservation Officers and a number of deputy Conservation Officers. Each of the 47 districts has a Co-ordinator to supervise and monitor the work of Conservation Officers.

#### Better Planning and Monitoring Needed

##### *Enforcement Plans*

Enforcement plans document the enforcement activities that must be carried out to meet Ministry objectives and district needs. For instance, a typical plan documents the locations most in need of patrol, a schedule for each Officer by area, and the enforcement efforts expected from the Officers.

We noted:

- **There were no annual enforcement plans in place in three of the four districts we visited. In one district, an annual plan was being developed. However, it was only worked on when time permitted.**
- **An internal study prepared by the Ministry identified that only 28 districts had long-term enforcement plans. Furthermore, the study pointed out that some of the plans did not tie into corporate objectives and targets and no rationale for priorities was established.**

##### *Activity Reports*

The Ministry's enforcement policy and procedures require that all Conservation Officers fill in an "Enforcement Officer Daily Report" so Officer activity can be monitored regularly. In the 1989 fiscal year, of the four districts visited, we noted that:

- Only two districts had all the required Daily Reports completed and available for our review.
- In one district, three of nine Officers had not completed any Daily Reports.

The information in the Daily Reports is summarized in a quarterly District Activity Report. Our review of District Activity Reports revealed that:

- One district had developed its own customized computer programs to produce Activity Reports and was producing monthly reports.
- In another district, no Activity Report was available from April 1987 to November 1988.
- One district has never produced an Activity Report. The district Co-ordinator did not know that such a report should be available.

**Many district Enforcement Co-ordinators do not have the timely and complete information they need to analyze Officer activities in their district and to identify enforcement trends from year to year.**

## Comments on Ministry and Crown Agency Audits

### Inconsistent Enforcement across the Province

Given the weaknesses in planning and monitoring, we were concerned that enforcement activities of Conservation Officers could vary significantly from district to district. **Our analysis of enforcement efforts and results revealed wide variations among regions for the 1988 fiscal year.** For instance, in the Algonquin Region, Conservation Officers recorded almost twice as many enforcement hours per Officer as Officers in the Eastern Region.

We also felt there should be some consistency across the Province in the handling of similar situations. We analyzed warnings and charges laid and noted wide variations from region to region:

#### For Every 100 Days of Enforcement

| <u>Region</u> | <u>Fish and<br/>Wildlife Warnings</u> | <u>Charges</u> | <u>Charges as<br/>% of<br/>Total</u> |
|---------------|---------------------------------------|----------------|--------------------------------------|
| Northern      | 6                                     | 15             | 71                                   |
| N-Central     | 2                                     | 14             | 88                                   |
| Algonquin     | 33                                    | 16             | 33                                   |
| N-Eastern     | 45                                    | 18             | 29                                   |
| N-Western     | 32                                    | 21             | 40                                   |
| Central       | 106                                   | 29             | 21                                   |
| Eastern       | 66                                    | 34             | 34                                   |
| S-Western     | 41                                    | 23             | 36                                   |

**While some differences among regions were expected, we questioned whether similar situations were indeed similarly handled when the North-Central Region was seven times more likely to lay a charge than issue a warning, while the adjacent Central Region was almost four times more likely to issue a warning than lay a charge.**

In addition:

- The Northern Region had a significant drop (35 per cent) in fish and wildlife charges despite a 13 per cent increase in the number of Conservation Officers.
- The Southwestern Region had a 48 per cent increase in charges laid although they only had a 2 per cent increase in the number of Conservation Officers.

### Improved Work Scheduling of Enforcement Staff Required

Our review of Officer work schedules revealed that proper priorities were established for the enforcement of the openings of fishing and hunting seasons, even if it meant obtaining additional staff support from the Ontario Provincial Police and local municipal police forces.

## Natural Resources

### Fisheries and Wildlife Management Activities

However, with respect to the other scheduling of Conservation Officers' workloads, **we noted that two-thirds of the average Officer's time is worked between the hours of 6 a.m. and 5 p.m. on weekdays. Weekends and some holiday periods are not heavily staffed as a general rule.** For instance, in one district, all of the Conservation Officers were off on a statutory holiday which fell during the peak of the deer hunting season.

**Our discussions with Conservation Officers indicated that they felt more illegal hunting and fishing is done on weekends and at night than during the weekdays.** The majority of Conservation Officers surveyed also believe more flexible scheduling of work times would make their enforcement efforts more effective.

The assignment of Conservation Officers should be directed to those times when the exposure for illegal activity is highest. As one guide association president said in a letter to the Ministry "Seeing a Conservation Officer in mid-afternoon, checking a couple of guide boats is not a real strong deterrent to out-of-season bass fishermen and poachers. A reassessment of after hours should be considered if the Ministry expects the concerned public to report violations."

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#### Illegal Fishing in the Great Lakes

At a 1988 meeting of the Canadian - U.S. Great Lakes Enforcement Sub-Committee, it was agreed that illegal harvest must be controlled if Great Lakes agencies were going to be successful in meeting the goals of fisheries rehabilitation. Our review of district fishery plans confirmed that illegal fishing in the Great Lakes was a common problem that enforcement staff needed to address. Illegal fishing is primarily attributable to commercial fishermen under-reporting their catch and unlicensed individuals illegally harvesting fish for commercial sale.

#### *Commercial Fishermen Under-reporting*

Since the 1940s, commercial fishermen have been required to report their catches to the Ministry on a monthly basis. This reporting requirement allows the Ministry to predict fish populations and set quotas for all fishermen. To ensure catches were accurately reported, the monthly reported catches were to be compared to purchase information from processing plants. However, the collection and analysis of the sales and catch information requires considerable time, effort and patience on behalf of Ministry Conservation Officers. As a result, **while the level of commercial fish enforcement has improved overall, some districts are still making only minimal efforts to carry out the complicated enforcement system.**

On the other hand, certain Ministry efforts in this area have produced some significant results. For instance, **in one series of investigations on Lake Huron between 1984 and 1987, a comparison of sales to reported catches revealed 33 instances of apparent false reporting, representing a minimum of 610,000 pounds of fish under-reported.**

## Comments on Ministry and Crown Agency Audits

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During 1987, sales information was examined for nine fisheries. It was learned that eight of these businesses were alleged to have falsely reported some part of their catch to the Ministry for the 1987 fishing season. During another investigation in 1987, an examination of one business showed that a total of 280,000 pounds of fish caught was not reported. The business was subsequently convicted on 45 counts and fined \$45,000.

### *Tainted Fish Reach Ontario Markets*

Under the Fish Inspection Act, Conservation Officers have the responsibility of ensuring that no person can sell, or offer for sale, fish intended for human consumption that is tainted, decomposed or unwholesome.

The Ministry has noted instances of illegally caught Lake Ontario walleye which, in a few cases, were destined for markets and restaurants in Toronto and Belleville. In one district bordering Lake Ontario, illegal fishing of walleye was estimated as having exceeded 350,000 pounds in 1985. The Guide to Eating Ontario Sportfish warns that walleye from certain areas of Lake Ontario exceeding 26 inches should not be consumed.

In the 1970s, the Ministry announced its intention to assign 25 Conservation Officers to ensure enforcement of this particular section of the Fish Inspection Act. The Ministry informed us that only about a third were hired. Only two Conservation Officers conduct inspections of Lake Ontario fishermen. The two Officers mainly check for substitutions, such as Ontario salmon being sold as B.C. salmon, but may also have fish tested for contaminants if they suspect their presence.

We recommended that the level of enforcement be reviewed to ensure sufficient monitoring deterrents are in place to discourage the sale of contaminated fish.

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### NON-ENFORCEMENT ACTIVITIES

#### **Overview**

Various activities are carried out by the Ministry's biologists, resource technicians and support staff in order to manage fish and wildlife in the province. Approximately 200 biologists, assisted by technicians and support staff in the regional and district offices, are responsible for delivering various fish and wildlife activities. These include the assessment of fish and wildlife to ensure that an appropriate supply exists, and fish-stocking methods to increase existing fish populations.

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#### **Useful Habitat and Population Data Being Compiled**

##### *Fish Assessment Units Providing Useful Information*

In 1978, in order to develop the new broader knowledge base essential for effective fish management in Ontario, a Federal-Provincial Task Force recommended the creation of 28 Fish Assessment Units. Since then, 16 of the 28 proposed Units have been established.

## Natural Resources

### Fisheries and Wildlife Management Activities

We reviewed published Fish Assessment Unit reports and found that the data reported by the units was considered to be valuable and useful in initiating management actions. For example, in one district the Fish Assessment Unit reported that, on four of five representative "type" lakes assessed, annual lake trout harvesting exceeded the recommended quantity by 250 to 550 per cent. Thereafter, the number of lake trout that could be caught by anglers, and the period of time that they could fish for lake trout, was reduced by the Ministry.

However, we did observe, in one instance, that the Ministry had implemented quotas that exceeded the limits recommended by its Assessment Unit. In 1984, when quotas were first introduced, the Lake Ontario Assessment Unit recommended that the yellow perch quota be set at approximately 310,000 kilograms. The quota actually assigned was approximately 480,000 kilograms, or 35 per cent higher, than recommended. As a result, sales of perch by commercial fishermen dropped by about 64 per cent over the four-year period from 1984 to 1987. Late in 1988, the Lake Ontario Assessment Unit advised the district office that over-exploitation of yellow perch had reached a critical point. As a result, strong measures had to be taken to preserve the yellow perch.

#### *Wildlife Assessments - A Continuous Process*

Big game populations, such as moose and deer, are given the most attention by Wildlife management. Populations are assessed by:

- aerial surveys of moose which are estimated by the Ministry to be 95 per cent accurate;
- an annual province-wide mail survey on hunter activity; and
- the hide and jaw program, whereby hunters deliver hides and jaws to the Ministry for analysis of the age and health of the animal.

The deer population was estimated to be around 300,000, up from 100,000 ten years ago. The moose population was estimated at 120,000, up from 70,000 ten years ago.

The Ministry had limited information as to where and how many bears were being harvested, to assist in the management of the bear population. Given the increasing popularity of bear hunting in Ontario and the incentive to harvest bears illegally for profit, the Ministry has ear-marked \$400,000 for bear management analysis in 1989.

The Ministry recognizes that it cannot monitor all small game and non-game species because of funding and manpower restrictions. Therefore, in most cases, the Ministry relies on academics and special interest groups to identify problems.

#### **Fish Stocking Methods Generally Adequate**

In the short term, fish stocking ensures the rehabilitation of self-sustaining fish populations. It also creates fishing opportunities where natural opportunities are non-existent or lacking.

## Comments on Ministry and Crown Agency Audits

About 1,000 of Ontario's 250,000 lakes are stocked annually. Provincial fish stocking has increased from average stockings of 2.4 million fish and eggs in 1983 to 12.1 million in 1987. Over 5 million, or 40 per cent of, stockings are made into four Great Lakes.

The Ministry has set out stocking guidelines in its policy statement entitled "General Policy for Stocking Fish in Ontario." We tested the four districts selected for review to ensure conformity with Ministry guidelines. We noted that:

- **stockings were made in accordance with Ministry guidelines** with due consideration for proper need, proper method of transport and stocking methodology; and
- **water suitability had been determined for the stockings tested.**

However, not enough post-stocking evaluative work was being done to assess the success of the program and its longer term impact on fish populations.

### RESPONSE

The Deputy Minister responded on September 8, 1989.

### REVENUE

#### ***Inadequacies in Licence Issuing Process***

##### *Inaccuracies in Licence Issuing*

*"Our reviews also indicated inadequacies in the process in its first year of operation, arising in part from the speed with which the program was put in place. These inadequacies have since been overcome."*

*"However, our analysis of licence sales does not support the estimate of lost revenue cited in the Provincial Auditor's Report."*

*"In fact, in the first two years of the Resident Sport Fishing Licence, sales have been slightly higher than our original estimates. Revenue from licences is higher than anticipated because a larger population of anglers bought seasonal rather than four-day licences."*

*"Changes made to increase controls after the first year confirm our findings. In the second year of the program we introduced numbered licences and numerical controls, yet no significant increases in revenue resulted."*

##### *Inaccurate Declarations of Missing Licences*

*"We agree with the basic conclusion in the Provincial Auditor's Report."*

### ENFORCEMENT ACTIVITIES

#### ***Better Planning and Monitoring Needed***

*"For some time now, MNR has been implementing improvements to procedures for developing and carrying out enforcement plans. Many of our districts now have*

## Natural Resources

### Fisheries and Wildlife Management Activities

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*complete enforcement plans in place. When fully implemented, the system will ensure that all districts use plans with a common format.*

*"We recognized the need for more consistent enforcement plans and control of activity reporting, and commissioned an internal report in 1987. Many of the report's 16 recommendations to improve the system were consistent with the Auditor's comments. The ministry is taking positive steps to improve the consistency of enforcement plans and controls on activity reporting."*

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#### **Inconsistent Enforcement across the Province**

*"Enforcement statistics do vary in different areas of the province. This is to be expected. Resource bases and user profiles differ from one region to another. Therefore, an enforcement program appropriate for one district might be inappropriate for another. A more complete examination of these variances is needed to determine whether they affect enforcement.*

*"The ratio of warnings issued to charges laid would likely be different between areas with little small-game hunting and those with a significant amount. Also, such factors as population density, hunting ethics and urban orientation reflect the different types of hunters being contacted.*

*"Some areas have a policy of issuing warnings as a means of education that will improve compliance over time. This strategy is particularly suitable when a new regulation is being introduced.*

*"The report includes deputy conservation officers in the analysis of enforcement, but deputy conservation officers do not generally lay charges. They are a voluntary force and are used to support staff conservation officers in the field. Thus, a comparison of warnings with charges based on enforcement days must take this factor into account."*

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#### **Improved Work Scheduling of Enforcement Staff Required**

*"MNR's scheduling of conservation officer staff is designed to cover peak hunting periods and also to allow time for the important work of preparing for prosecution of charges, as with other duties.*

*"Documenting some kinds of charges and following them through to court appearances is very time-consuming, and this work must be done during weekday business hours.*

*"Also, most hunting does not occur on weekends and in the evening. The peak of any hunting season is on opening day and in the first week of the open season. More officers are scheduled to work during this peak period, thus increasing the cost-effectiveness of the enforcement system. The activities of commercial fishermen and hunt camps primarily take place during weekdays. In addition, hunting at night is illegal in Ontario, and hunting on Sundays is illegal in southern Ontario.*

## Comments on Ministry and Crown Agency Audits

*"On the whole we believe that the time of our conservation officers is used quite effectively. Any analysis of effectiveness must take into account the periods when our scheduling needs are greatest."*

### Illegal Fishing in the Great Lakes

*"We agree that better monitoring is needed to ensure the elimination of illegal fishing."*

*"At present, the level of monitoring varies from one district to another, depending on the amount of commercial and sport fishing in the district and the resources and equipment available to do the monitoring. Illegal fishing in some districts is a significant factor, while other districts - particularly on Lake Erie, where the largest amount of commercial fishing takes place - have a good record."*

*"It is not just the level of enforcement that is important. Effectiveness and efficiency are equally as important, especially given the nature of activity, industry characteristics and geographical areas involved."*

*"Furthermore, we believe that other, complementary efforts to cut down on illegal fishing are useful. For example, conducting programs to educate anglers and developing initiatives like the self-policing program on Lake Erie are worthwhile MNR activities."*

*"The ministry has for some time been carrying out investigations in areas where illegal fishing is a problem, and as the Auditor's report acknowledges, we have had considerable success in tracking down fisheries that are operating illegally."*

*"We are concerned about illegal fishing and are continuing to address the problem. In 1987, the year cited by the audit, the ministry was conducting its own study of illegal fishing on Lake Huron. The number of fisheries believed to have falsely reported catches that year was 12 and the number of pounds of fish under-reported was 210,000. These figures partly reflect the extend of the ministry's investigations in the area."*

*"With regard to the 25 conservation officers . . . , this figure was discussed in the early 1970s, but was never approved. It was never MNR's intention to implement the program at that level."*

*"Such a large number of officers devoted to this activity would be unnecessary. About 95 per cent of the fish commercially caught in Ontario are exported and are thus inspected by federal authorities."*

*"Based on many years of monitoring and co-operative efforts with other provincial and federal authorities in the health, environmental and fisheries areas, we believe that human health is not at risk. Data are available for fish being taken by sports and commercial fishermen throughout Ontario, giving a picture of where health problems exist and where they do not. Information is published and widely available to sport anglers with direction from health authorities about fish consumption. Commercial fisheries are either discounted or regulated with respect to species and size, to prevent harvest and sale of fish that are contaminated and may not be sold."*

## Revenue

### Retail Sales Tax

*"Our efforts to monitor contaminants and ensure the nutritional safety of fish caught and sold in Ontario are focused at the front end - that is, in the monitoring of commercial catches. All licensed commercial fisheries are required to submit to this monitoring as a condition of licensing."*

*"MNR staff continue to work with staff of the Ministry of the Environment and the federal Department of Fisheries and Oceans to ensure that adequate sampling takes place."*

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#### NON-ENFORCEMENT ACTIVITIES

##### **Fish Stocking Methods Generally Adequate**

*"We agree that more detailed assessment of the success of our fish-stocking programs is needed. A more complete assessment, however, requires additional staff and funds."*

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### 3.12

#### **Observations on Audit and Revenue Control Systems, Retail Sales Tax Branch, Ministry of Revenue.**

Retail Sales Tax amounted to \$7.8 billion, or over 20 per cent, of the total revenue of the Province for the 1989 fiscal year. The Retail Sales Tax Act imposes an eight per cent tax on most retail sales.

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#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit assessed:

- . The ability of the audit and service functions to encourage vendors to comply with legislation.
- . The adequacy of collection procedures for overdue tax remittances.
- . The adequacy of controls to ensure the accuracy and security of tax data.

In planning our audit, we considered the results of our previous audit in 1985 and reviewed internal audit reports and research studies.

Most of our audit work was conducted at the Ministry's Head Office in Oshawa. However, we also visited all three regional offices and interviewed regional field and managerial staff. In addition, we examined a number of audit and collection files.

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#### CONCLUSIONS AND FINDINGS

##### AUDIT AND SERVICES

Although there has been significant payback from improvements in audit capability and productivity since our last audit, we questioned whether these improvements were sufficient to increase the level of voluntary compliance with the Act, particularly for small vendors.

## Comments on Ministry and Crown Agency Audits

- Despite improved audit productivity, the percentage of vendors audited had not increased since 1985, because of significant growth in the number of vendors. A large proportion of the small vendor population may never be audited.
- Field visits by service officers to small vendors had declined, thereby increasing further the risk of non-compliance.

### REVENUE CONTROL

The Ministry was effective in collecting taxes from delinquent vendors. Write-offs had declined, as a proportion of total revenue and vendor accounts, during the past four years.

### ACCURACY AND SECURITY OF TAX DATA

The information system was well managed. There were adequate controls and security measures to ensure accurate and reliable data.

### BACKGROUND

All retail store vendors are required to collect and remit the eight per cent sales tax on most merchandise sold. They are entitled to a nominal fee for collecting the tax. This fee is generally deducted from the total taxes collected and the net amount is remitted.

The Branch operates with approximately 440 people located at Head Office and 13 field offices. For the 1989 fiscal year, total expenditures of the Branch were \$25.2 million, of which approximately 75 per cent or \$19 million related to salaries and employee benefits.

The basic philosophy of the Ministry has been to encourage voluntary compliance by taxpayers through "soft services" as opposed to "hard" enforcement. Such services included the provision of information on tax changes through publications and seminars, as well as informal visits by service officers.

### COMMENTARY

#### AUDIT AND SERVICES

##### Overview

Audit is one means of ensuring that taxpayers comply with all relevant aspects of the Retail Sales Tax Act and report the correct amounts on their returns. Audits have a twofold impact on vendors. Firstly, the immediate impact is upon the vendor subjected to the audit, and may result in direct revenues to the Province. In the 1989 fiscal year, the Branch raised close to \$63 million in direct revenue. Secondly, and probably of more significance, is the awareness of other vendors that audits are being conducted. This awareness usually encourages voluntary compliance.

Audits can also be a good source of feedback on legislative and administrative problems. For example, an audit uncovering an error, which is based on a misunderstanding of the Retail Sales Tax legislation, can be compared to audits of similar vendors in order to determine the nature and extent of the problem.

## Revenue

### Retail Sales Tax

This provides an ongoing mechanism whereby the legislation can be improved and made more readily comprehensible to vendors.

Given that the purpose of audits is not only to foster compliance by the individual vendors being audited but also to encourage voluntary compliance on a wider scale, it is important to ensure that:

- A sufficient number of vendors are selected for audit, taking into account the diversity of the vendor population and the risk of non-compliance or misinterpretation.
- Auditors are well-trained in audit procedures and well-versed in the legislation.

Service field officers are another important means of encouraging voluntary compliance. In addition to maintaining the computerized vendor tax roll, which is key to ensuring proper monitoring and collection of tax moneys due, their duties include providing vendor information services and conducting field education and surveillance visits.

#### Audit Coverage Still Insufficient

In 1985 we reported our concerns that the number of vendors being audited each year was insufficient to meet management's objective of encouraging voluntary compliance. We also estimated that the shortfall between the amount of retail sales tax that Ontario actually received and the amount it was legally entitled to receive could be anywhere from \$300 million to \$1 billion.

**From 1984 to 1988, the number of auditors and group managers combined remained steady at about 160. However, the number of active vendors has grown from about 162,000 to 210,000 during the same period. Therefore, it is not unreasonable to expect that the "tax gap" would have increased with inflation, the expansion in the economy since 1985 and the higher tax rate.**

For audit purposes, the vendor population is segregated by sales volume into "A", "B" and "C" categories: "A" vendors have revenues exceeding \$200 million, "B" vendors have revenues between \$30 million and \$200 million, and "C" vendors have less than \$30 million in revenues. Management conducts audits of all "A" and "B" vendors over a three to four-year audit cycle. "C" vendors are chosen from pre-selected profile codes based on the potential for non-compliance.

Although 5,690 audits were completed in 1989, this represented only 2.7 per cent of active vendors. The corresponding figure for 1985 was 3.1 per cent. Although the number of audits completed was higher than in 1985, it had declined from a high of 6,260 in 1987. In fact, audit coverage of the 200,000 active "C" small vendor category had dropped to 2.6 per cent in 1989 from 3.4 per cent in 1988. We estimated that at this rate it would take around 40 years to cover these "C" vendors.

**Accordingly, a great number of vendors with revenue of less than \$30 million may come and go without ever being subjected to an audit.** Consequently, we felt that this level of small vendor coverage was insufficient to encourage voluntary compliance.

## Comments on Ministry and Crown Agency Audits

One study suggested that three per cent of the audits performed should be randomly selected to achieve greater long-term compliance without incurring excessive costs. We agreed that some random selection would give management better assurance about the effectiveness of their selection strategy both in identifying higher risk vendors and in encouraging voluntary compliance.

There had been a number of funding agreements between the Ministry and Management Board designed to increase the effectiveness of tax programs. The basic premise was that additional expenditures were approved as long as the Ministry met its promised targets for increased direct revenues. However, the last agreement, made in 1987, was subsequently cancelled because the Ministry was unable to meet its direct revenue target of \$250 million, \$85 million of which related to retail sales tax. The Ministry fell short on their retail sales tax commitment by some \$20 million.

The Ministry had failed to consider the recruitment problems of the period and the training time needed before an auditor becomes fully productive. With several years of experience behind them, management felt capable of making more realistic revenue projections. We recommended that more audit resources be acquired to broaden audit coverage to at least five per cent of the active vendor population.

### Significant Improvement in Audit Capability

Our audit in 1985 indicated that salary levels were not adequate to attract or retain better educated staff, and consequently many of the existing auditors were failing to perform up to the desired level. Subsequently, auditor classifications were upgraded and more qualified auditors were recruited, thereby improving both morale and the overall effectiveness of auditors.

Auditor performance over the past five years had also improved due to better training of auditors, closer supervision of audits, an improved Auditor's Handbook and the introduction of laptop computers. Consequently, the number of audits completed and direct revenues raised had significantly increased without increasing the number of auditors. The following table illustrates a growth rate of nearly 85 per cent in audits and almost three times the direct revenues assessed.

|                                   | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|-----------------------------------|------|------|------|------|------|------|
| Number of audits                  | 3085 | 4995 | 5870 | 6260 | 6050 | 5690 |
| Revenue assessed<br>(\$ millions) | 21.4 | 31.3 | 55.3 | 64.7 | 62.6 | 62.8 |

**Better trained and managed auditors had brought in much greater direct revenue than the added collection costs.** Specifically, expenditures on salaries, portable computers and training were about \$3 million higher in 1989 than in 1985, after allowing for cost of living increases for salaries. Future annual costs could be even less as fewer portable computers would be needed.

## Revenue

### Retail Sales Tax

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However, certain deficiencies still remained. We observed that the computer capabilities of audit staff required further upgrading, particularly in the use of laptop computers and in auditing more sophisticated computer systems of larger vendors.

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#### Small Vendor Contacts Reduced

Established in 1982, the Special Vendor Assistance Program was given a mandate to contact small vendors to explain their vendor responsibilities, legislative rights and obligations, due to the significant budgetary changes made that year. The goal was to encourage those businesses affected by the changes to voluntarily comply with the Retail Sales Tax Act. The Ministry's response to our 1985 audit concern regarding the low audit coverage commented on the fact that the Program was an important measure in encouraging voluntary compliance. The Ministry stated that "14,000 (vendors) were visited under the Program" and that they believed these visits compensated, in part, for inadequate audit coverage.

**In 1985, when the Program was handled by the audit function, there were some 60 Program officers assigned to conduct field visits. However, within the last year, responsibility for the Program was transferred to the Services Function where only two Program positions have been staffed.**

The reduction in this small vendor assistance comes at a time of shrinking audit coverage. This reinforced our concern that small vendor contact may be insufficient to meet management's objective of encouraging voluntary compliance in the small vendor population.

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#### REVENUE CONTROL

##### Overview

The Revenue Control Function is similar to an accounts receivable collection function in a private corporation. Its role is to ensure that vendors who are overdue in remitting the retail sales tax fulfill their statutory obligation and pay the tax. In terms of volume of activity, staff handled 94,000 late or delinquent payments representing approximately \$260 million in overdue revenues in the 1988 fiscal year.

The approach to Revenue Control assumes that the majority of vendors who fail to remit their taxes when required do not do so deliberately. The progression of collection activity from reminders to seizing assets, as provided under the Retail Sales Tax Act, reflects this principle. As well, interest and penalty charges are waived for those vendors who file late for the first time during the preceding 12 months.

Although certain refinements were still possible, we felt that overall there were good control features built into the collection process.

## Comments on Ministry and Crown Agency Audits

### Collection Effort Effective

The major indicator of the effectiveness of a collection function in any organization is the amount that must be written off as uncollectible. **For retail sales tax, the amount written off as uncollectible for the 1989 fiscal year was \$6.9 million, or only one-tenth of one per cent of the total revenue of \$6.9 billion, collected during the previous fiscal year. Write-offs during the past five years had declined about 45 per cent in relation to both revenues collected and the growth in active vendor accounts administered.**

| <u>Fiscal<br/>Year</u> | <u>Write-offs</u>            |                              | <u>Previous Year<br/>Revenue Collected</u> |                   |
|------------------------|------------------------------|------------------------------|--|-------------------|
|                        | <u>Number of<br/>Vendors</u> | <u>Amount<br/>\$ million</u> | <u>\$ billion</u>                          | <u>Percentage</u> |
| 1989                   | 1,396                        | 6.9                          | 6.9  | 0.10              |
| 1988                   | 1,268                        | 6.5                          | 6.0  | 0.11              |
| 1987                   | 1,401                        | 6.3                          | 5.2  | 0.12              |
| 1986                   | 1,591                        | 8.1                          | 4.7  | 0.17              |
| 1985                   | 1,949                        | 7.7                          | 4.2  | 0.18              |

This trend clearly indicated that collection effort was becoming more effective despite a growing tax roll.

### ACCURACY AND SECURITY OF TAX DATA

The Retail Sales Tax Branch relies heavily on a computerized database information system (BASYS) for recording, storing and computing information concerning the administration of the Retail Sales Tax Act. BASYS was developed in 1982 at a cost of approximately \$4 million. About 1.9 million transactions are processed each month.

**We concluded that the computer system was well managed. There were adequate processing controls and appropriate security measures in place, and data integrity was maintained.**

### RESPONSE

The Assistant Deputy Minister provided the following reply to our findings and recommendations.

*"Except as noted in my response, I am generally in agreement with the observations contained in the report. Your positive comments on the significant improvement in audit capability, the effective collection effort and how well the computer system was managed are all gratifying."*

## Revenue

### Retail Sales Tax

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#### AUDIT AND SERVICES

##### **Audit Coverage Still Insufficient**

*"Random selection of a portion of audits may provide some useful information, but could only be employed effectively in certain profile codes or geographic areas. However, we shall explore the feasibility of the suggestion.*

*"As reported to Management Board in 1988, the start-up of the 1987 agreement was delayed due to:*

- . delays in the reclassification of auditors*
- . consequent delay in the recruitment process*
- . continued difficulties in hiring qualified staff due to competition from Federal Government and the Greater Toronto Area location.*

*"The Branch believes strongly in encouraging voluntary compliance in the taxpayer base through a broad and visible audit presence. Subject to funding constraints, a number of measures have been implemented to try and broaden coverage over the past few years. These measures include profile code and 'A,B,C' classifications of the taxroll, and the introduction of computerized laptop technology into the audit process.*

*"Extending audit coverage to 5 per cent of the active vendor population would require the completion of some 5,000 additional audits. Based on the Audit Section's existing technology and audit methodology, this would require approximately 87 more auditors, plus additional management and support staff.*

*"In anticipation of continuing constraints, the Audit Section is investigating several approaches to increase audit coverage. These include: developing the ability to extract and analyze information directly from taxpayer databases; utilizing software such as IDEA or ACL; designing more effective audit selection and compliance tracking systems; and obtaining additional vendor financial information prior to the commencement of an audit."*

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##### **Significant Improvement in Audit Capability**

*"Recognizing the widening gap between taxpayers' increasingly complex and sophisticated EDP facilities and the Branch's ability to audit them, the Branch initiated the following actions in the Audit Section:*

- . Hiring preference was given to those individuals possessing EDP auditing experience.*
- . A professional accounting designation or registration in a course leading to a designation was required of all auditors.*
- . Computer technology was introduced into the audit process at the field level through the Laptop Program.*

## Comments on Ministry and Crown Agency Audits

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*"The Branch agrees that mainframe EDP audit knowledge and skills must continually be addressed, and is currently holding discussions with Human Resources, in conjunction with the Ministry's other audit Branches. The purpose of these discussions is to examine the feasibility of establishing a Ministry program to develop EDP audit capabilities and provide the necessary training."*

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### 3.13 Deficiencies Noted in Driver and Vehicle Registration Systems, Ministry of Transportation

The Transportation Regulation Operations Division provides driver licensing and vehicle registration services through five regional offices and 300 private issuing offices throughout the Province.

During the 1989 fiscal year, the Division collected \$509.3 million of revenue and spent a total of \$48.5 million (Vote 3703, Item 2).

#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit focused on the operations of the Driver and Vehicle Registration Systems and the management controls over the acquisition and use of EDP resources by the Division.

We assessed whether:

- the Driver System data was authorized, accurate and complete;
- revenue transaction processing and associated controls in the Vehicle Registration System were adequate; and
- EDP resources were acquired economically and utilized efficiently.

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#### CONCLUSIONS AND FINDINGS

##### DRIVER SYSTEM DATA PROCESSING

Computer controls and operational procedures for the processing of data in the Driver System were adequate. However, in the processing of particular items we noted several system and administrative deficiencies.

- Processing of conviction amendments, National Parole Board pardons and police correspondence were backlogged six months.
- Medical, conviction and suspension order documents were not secured against removal or destruction, nor was unauthorized viewing of medical records prevented.
- Licensed individuals can have more than one driver's licence number.
- Suspended drivers can obtain a new licence through legal name changes.
- The Driver System automatically reinstated suspended drivers upon payment of one fine even though other fines may have been outstanding.

## Transportation

### Driver and Vehicle Registration Systems

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#### VEHICLE REGISTRATION SYSTEM

Controls over revenue transaction processing, licence plates and renewal stickers were satisfactory. However, the recording of insurance information was not required.

#### RESOURCE ACQUISITION AND UTILIZATION

Generally, EDP resources were acquired and used in an economic and efficient manner, and payment controls were adequate. However, there were some notable exceptions:

- Management Board approval was not obtained for a \$1.2 million system project.
- Software acquired for \$165,000 and a system developed for \$193,000 had not been used.
- Consultants were paid in excess of original contract ceiling amounts.

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#### BACKGROUND

The Ministry's Transportation Regulation Operations Division is made up of two branches and four offices located in Downsview and Kingston. It provides driver licensing and vehicle registration services through five regional offices and about 300 private issuing offices.

There are a number of EDP applications in use to assist in the delivery of such services. The Driver System and the Vehicle Registration System are the two major applications. The two systems are integrated and financial data pertaining to vehicles and drivers are processed by a subsystem called the Vehicle Licensing and Control System. Combined, both systems process an average of 400,000 transactions per day.

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#### COMMENTARY

##### DRIVER SYSTEM DATA PROCESSING

##### Overview

The Driver System issues licences to the six million qualified drivers in the Province and records information needed to improve and control licensed drivers. The system also supports the operations of other ministries and law enforcement agencies such as Ministry of Attorney General, Ministry of Consumer and Commercial Relations, Ontario Provincial Police, etc.

The Driver System was automated in 1966. Over the past twenty years, numerous changes have been made to the system to satisfy changes in driver policy and user requirements. A Driver System Review Project is underway to review the driver program and work towards developing a new Driver System. In 1987/88, 298,000 original driver licences and 2.2 million renewals were processed.

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##### Operation of the Computer System Adequate

Considering the volume of driver licensing and driver control data, we concluded that the operation of the computer system and related controls were adequate. However, we did note some weaknesses.

## Comments on Ministry and Crown Agency Audits

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### Untimely Input in Driver Improvement Office

It is important that input documents in the Ministry's Driver Improvement Office be processed on a timely basis. Such input documents include conviction amendments from the Provincial Courts, National Parole Board pardons, and correspondence from the police concerning individuals caught with more than one driver licence number.

When an amendment or pardon is not recorded within a reasonable time, several things can happen:

- . Reinstatement may be delayed for a driver who was suspended.
- . An insurance company may increase a driver's insurance premium inappropriately.
- . The Driver Improvement Office may interview a driver unnecessarily.

**A six-month backlog of approximately 8,000 documents was noted in the Driver Improvement Office.** Approximately 30 per cent of documents were processed as a result of frustrated drivers calling to ask for special consideration to speed up the processing. Such requests interrupted Driver Improvement Office activity as the court involved must be contacted to verify the information, even though the Ministry already has the information in the backlog. A transaction was then generated for processing by the computer system and the police were notified of the reinstatement.

Action was being taken during the audit to clear the backlog.

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### Medical, Conviction and Suspension Order Documents Not Secure

Convictions under the Highway Traffic Act, the Criminal Code of Canada, unpaid fine suspensions, as well as accident-related data are recorded. This data is important in the administration of the demerit point system and is provided to insurance companies so that driver insurance rates can be set. In addition, unpaid fine suspensions and Criminal Code Convictions resulting in licence suspensions are forwarded to the police for enforcement.

**During the course of the audit, approximately 20,000 such documents awaited processing. They were not secured from unauthorized or accidental removal. As the documents had not yet been recorded, any removal would have gone unnoticed.**

In the Driver Improvement Office, many types of documents relating to individual drivers were processed. Medical reports from physicians, criminal searches on applicants of certain classes of licences, driver interview results, and conviction amendments made up the bulk of input in this area.

**Thousands of these documents were not being secured from unauthorized viewing, removal or destruction.** These documents had not been microfilmed and their removal might have gone unnoticed. As part of management's overall plan to improve document processing and storage, lockable cabinets were being installed at the time of the audit.

## Transportation

### Driver and Vehicle Registration Systems

#### Multiple Driver Licence Numbers Issued

The Driver System generates a 15-character driver licence number based on surname, first name, middle initial, birth date and sex. It is critical to ensure that each licence number is used only once to effectively monitor and control drivers in Ontario. For the same reason, it is also important to ensure that each driver has only one licence number.

The process that generates driver licence numbers ensures that each number is unique. **However, individuals can have more than one number. Since September 1987, more than 1,000 instances of individuals with multiple driver licence numbers were detected by the police or by the Ministry.** The problem generally stems from individuals altering their first and middle names, and sometimes their date of birth, on their applications. For example, John James Jones may be entered as John Jones, John J. Jones or J. John Jones. The computer system regards each one of these as a different name and generates a different driver licence number since it is designed to create a new number if it cannot find an exact match.

The system also generates a new drive licence number when there is incomplete information on conviction notices or collision reports. Another possible cause of multiple driver licence numbers is the Ministry's acceptance of 24 different documents as identification, thereby increasing the chance of capturing inconsistent information.

When a driver has more than one driver licence number, the driving record for the individual is fragmented and incomplete. This defeats the driver improvement efforts of the Ministry since important data, such as demerit points, are spread over two or more licence numbers, and the Ministry is unaware of the multiple numbers.

#### Suspended Drivers May Obtain a New Licence through Legal Name Changes

The suspension of a driver's licence may be circumvented by an individual through a legal name change and subsequent application for another licence. While most people change their name for legitimate reasons, those who have had their driving privilege revoked may attempt to avoid the suspension through a legal name change.

There was no mechanism for the sharing of legal name change information between the Ministry of Consumer and Commercial Relations and the Ministry of Transportation. It was noted that, in 5 out of a sample of 105 legal name changes, the individuals failed to notify the Ministry of their legal name change. **An individual may change his or her legal name for \$100 and then apply for a driver's licence as if he or she had never been licensed. The Driver System has no way to detect such a fraudulent application.**

One instance demonstrates this point. We concluded that an individual had three licence numbers under three different legal names. The driving records indicated 11 convictions for impaired driving, blood alcohol exceeding .08 and refusing a breathalyzer test. There were also four convictions for driving while disqualified.

We recommended that the Ministry examine the feasibility of obtaining legal name change information to make the Driver System less vulnerable to manipulation by suspended drivers.

## Comments on Ministry and Crown Agency Audits

### Suspended Drivers Reinstated Even Though Fines Outstanding

Drivers convicted of an offence and ordered to pay a fine by the court sometimes ignored the fine even though a warning notice of impending driver licence suspension was mailed to them. As of January 31, 1989, there were approximately 260,000 drivers with outstanding fines valued at slightly more than \$16 million. The Highway Traffic Act states that the Registrar shall not reinstate any driver's licence suspended for an unpaid fine until all outstanding fines have been paid.

A review of the Driver database and microfilmed documents showed that the Driver System did not process all of an individual's unpaid fines correctly. **Unpaid fine suspensions, subsequent to the first one, were rejected by the system. As a result, the payment of the first fine automatically reinstated the driver licence.** Of the 260,000 drivers with unpaid fines mentioned above, 177,000 drivers had more than one outstanding fine and their fines totalled \$10.5 million. **This system inadequacy meant that the Ministry of the Attorney General co-ordinated the actions of the Provincial Courts and the Ministry in order to monitor and control the rejected transactions. It also reduced the effectiveness of driver control and fine collection procedures.**

Management informed us that a project to correct this deficiency has been underway since 1984 and was in the pilot testing phase.

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### VEHICLE REGISTRATION SYSTEM

#### Overview

The Vehicle Registration System was implemented in 1983 and records, monitors and controls the registration and licensing of motor vehicles, and accounts for the related revenues.

The system stores information on over 8 million vehicle registrants and 11 million vehicles. Approximately 10 million registration transactions are processed annually.

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#### Revenue Transaction Processing Satisfactory

The controls over the collection, deposit and recording of licence plate and renewal sticker revenue were examined for accuracy and completeness. Controls to ensure the safeguarding of the inventory of licence plates and stickers were also reviewed. We noted that revenue transaction processing had significantly improved since our previous review.

**Controls over collection, deposit and reporting of revenue were adequate. Revenue was collected on a regular basis, inventories were accounted for and transaction data was accurately recorded.**

**Errors in issuing licence plates and renewal stickers were resolved on a timely basis. NSF cheques and refunds were sufficiently controlled.**

## Transportation

### Driver and Vehicle Registration Systems

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#### Recording of Insurance Information Not Required

Under the Compulsory Automobile Insurance Act (CAIA), "every person making an application for the issuance, validation or transfer of a permit for a motor vehicle shall certify . . . that the motor vehicle is insured . . ." In addition, the Act states that the Registrar of Motor Vehicles, "shall not issue, validate or transfer the permit for the motor vehicle, where such certificate of insurance is not provided to the Registrar." This requirement is explicit on the registration forms used for renewals and transfers of motor vehicles.

However, **the Act does not require the Registrar of Motor Vehicles to record or verify the certificate of insurance.** Discussions held with the Office of the Superintendent of Insurance at the Ministry of Financial Institutions indicated an interest in having the information stored with the registration system.

We recommended that the Ministries further explore the cost/benefits of storing this information on computer databases.

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#### RESOURCE ACQUISITION AND UTILIZATION

The Safety and Regulation program spent \$20 million, in 1987/88, for EDP operations, computer systems development and related work. **All EDP-related payments were authorized and recorded in the Ministry's financial accounting system.**

**Compliance with applicable regulations, policies and procedures pertaining to the acquisition of EDP hardware, software and human resources was satisfactory. However, we noted some exceptions as outlined in the following sections.**

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#### Management Board Approval Not Obtained for System Project

The Single Application Vehicle Registration system began as a maintenance project. However, it evolved into a major system development project with a total cost of \$1.2 million and was scheduled for completion at the end of March 1988. The following administrative concerns were observed:

- As reported by the Ministry's Internal Auditors in 1987, Management Board approval was not obtained for the overall project. However, Management Board Directives require that all information technology projects costing over half a million dollars have prior approval of Management Board.
- The project was behind schedule and the costs exceeded the estimate.

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#### Software Acquired/Developed But Not Used

In spite of technical feasibility problems raised in evaluations prior to acquisition, systems library control software was purchased for over \$165,000 in March 1987.

**Subsequently, the product could not be installed due to Ministry turnover and inappropriate vendor support. No recovery of the software cost was possible due to the licensing agreement.**

## Comments on Ministry and Crown Agency Audits

In support of another computer application, a management information component was developed as a prototype primarily by three consultants. **This was done at a cost of more than \$193,000 over two years. Further work was suspended due to a re-evaluation of priorities.**

Management informed us that valuable information had been obtained as a result of the project.

### Consultants Paid in Excess of Original Contract Ceiling Amounts

Consultants are usually paid at much higher rates than permanent staff. Therefore, carefully planning consultants' work, properly selecting them and supervising their progress are important functions of management.

**Three of the seven consultants in our sample were paid a total of \$482,000 on contracts with original ceiling amounts totalling \$241,000.** In one case the total payment of \$187,400 was more than triple the \$57,800 original contract amount. The consultants had been selected through a proper tendering process in which their bids were reasonable and competitive. However, subsequent addenda or renewals enabled the consultants to collect far more than any consultant bid in the original tender.

More rigorous planning would ensure contract completion within the negotiated ceiling price and promote fairer competition among vendors of consulting services.

### RESPONSE

We received the Deputy Minister's response on September 15, 1989.

### DRIVER SYSTEM DATA PROCESSING

#### ***Untimely Input in Driver Improvement Office***

*"Following the application of a significant amount of overtime over the past several months, some improvements have been made in the processing time for input documents. Service standards have been developed for driver improvement products and services and are currently being implemented. Discussions are currently underway with Management Board regarding resources required to address these standards. In addition, mechanisms have been put in place to ensure timely input of driver improvement information based on its potential impact on highway safety."*

#### **Medical, Conviction and Suspension Order Documents Not Secure**

*"Driver Improvement Office is currently moving towards a 'clean desk' approach as part of security initiatives. This includes the acquisition of locked storage cabinets for all work in addition to providing appropriate space for each staff member. We have acquired shredding bins which do not allow for the removal of documents, have placed 'staff only' signs at the entrances to the office and are currently investigating the feasibility of installing locked doors to prevent unauthorized entry to the office. These initiatives are part of a security plan developed in August, 1988."*

## Transportation

### Driver and Vehicle Registration Systems

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#### **Multiple Driver Licence Numbers Issued**

*"It is not possible within the existing driver system to implement this recommendation. This is due to the significant tradeoffs involved in time and cost required for computer-driven contender checking. Business analysis is, however, currently underway for a new driver system, and this requirement will be considered as part of the system redesign."*

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#### **Suspended Drivers May Obtain a New Licence through Legal Name Changes**

*"The Ministry is currently investigating with the Ministry of Consumer and Commercial Relations the establishment of an interface between the driver and vehicle systems and birth/death registration. Upon completion of this project, the Ministry will investigate the extension of such an interface to name change information."*

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#### **Suspended Drivers Reinstated Even Though Fines Outstanding**

*"Recently an electronic interface was implemented between the Ministry and the Ministry of the Attorney General. This interface will expedite the processing of suspensions and reinstatements for unpaid fines. A proposed modification planned for 1990 will prevent drivers with multiple unpaid fines from being reinstated until all fines are paid."*

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#### VEHICLE REGISTRATION SYSTEM

#### **Recording of Insurance Information Not Required**

*"The collection of insurance information is a secondary aspect to the Ministry's mandate, however, the Ministry will initiate discussions with the Ministry of Financial Institutions to explore further the costs/benefits of storing this information on shared computer databases. This will also determine the other ministries' interests and involvement."*

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#### RESOURCE ACQUISITION AND UTILIZATION

#### **Management Board Approval Not Obtained for Systems Project**

*"The Single Application Vehicle Registration (SAVR) systems project was initiated by the Canadian Council of Motor Transport Administrators (CCMTA) and all Canadian jurisdictions were responsible for implementation within certain timeframes. This project commenced as a maintenance task associated with the Commercial Vehicle Operator Registration (CVOR) application and was not expected to become a major systems development assignment based on preliminary requirements."*

*"The SAVR system has since been implemented in compliance with the CCMTA agreement and a post implementation review has been scheduled this fiscal year to assess the final scope, benefits and resource requirements for this project. This information will be provided to Management Board and approvals obtained as appropriate for any future projects."*

## Comments on Ministry and Crown Agency Audits

### Software Acquired/Developed But Not Used

*"Since the acquisition of a Computer Systems Library Management software project in 1987, the Ministry has experienced continuing problems with the vendor support, decreasing confidence in the product and staff turnover which has contributed to insufficient in-house expertise. Based on this situation, the plan is to utilize a product now currently available at the Ministry of Government Services Computer Centre which addresses our requirement adequately."*

*"Consultant expertise was required to develop the Management Information Component of the new Carrier System and the use of this component will continue to be evaluated in conjunction with other program priorities along with the overall business strategic plan."*

### Consultants Paid in Excess of Original Contract Ceiling Amounts

*"A review of the three consultant assignments identified in the Audit by Ministry management has indicated the proper tendering procedures were followed and subsequent addenda or renewals were substantiated."*

*"All process requirements of the Ministry's Consultant Assignment Committee were followed. The Ministry's CAC meets weekly in order to ensure appropriate reviews occur for consultant assignments prior to the Deputy Minister's approval and in conjunction with the Management Board directive."*

*"The Ministry has further strengthened the definition and management of consulting assignments in this area through the creation of a new position, Senior Manager, Regulation Systems. One responsibility of this position is to implement an improved project monitoring and reporting system, including consulting assignments."*

#### 3.14

#### Opportunities for Improvement - Examination, Inspection and Enforcement Activity, Ministry of Transportation

The Examination, Inspection and Enforcement Activity is responsible for the regulation and licensing of vehicles and drivers, as well as the establishment and enforcement of highway safety standards.

The 1989 fiscal year expenditures for this Activity were \$39.1 million (Vote 3703, Item 3).

#### SUMMARY

#### SCOPE AND OBJECTIVES

Our audit of the Examination, Inspection and Enforcement Activity was conducted at the Ministry's head office in Downsview and included visits to five of its 14 district offices, located in Brampton, Kingston, London, Scarborough and Thunder Bay.

With over 80 per cent of the expenditures being for salaries and wages, our audit objectives were to assess whether examination and enforcement procedures were conducted efficiently and in accordance with Ministry-established service and safety standards.

## Transportation

### Examination, Inspection and Enforcement Activity

#### CONCLUSIONS AND FINDINGS

##### *DRIVER EXAMINATION*

Overall, we found that driver examination staff productivity was at a high level. However, compliance with certain key standards and procedures was inadequate.

- . Excessive backlogs of applicants waiting for driver road tests resulted in delays of up to 18 weeks in certain locations.
- . Driver examination pass rates varied significantly among examination centres and individual examiners, indicating that driving tests were not administered consistently across the province.
- . Impersonation of applicants occurred during the road test phase of the driver examination.
- . Excessive backlogs in processing physicians' medical reports resulted in medically unfit drivers continuing to drive for longer periods of time.

##### *INSPECTION AND ENFORCEMENT*

Little formal monitoring of inspection and enforcement procedures was being done.

- . Bus safety inspections were not conducted as frequently as required under the Ministry's guidelines even though prior inspections raised concerns about the level of safety defects.
- . The percentage of inspected commercial vehicles removed from the road for safety defects ranged from 28 per cent in some districts down to 7 per cent in others.

In the 1988 fiscal year, 22 per cent of trucks inspected were removed from service due to safety defects, compared with 15 per cent in 1975. The Ministry is aware of this trend and has recently undertaken several initiatives to improve overall highway safety. For example, aided by a new computer system which identifies trucking operators who habitually contravene regulations, the Ministry has been successful in encouraging such operators to operate and maintain their vehicles in a safer way.

#### COMMENTARY

##### *DRIVER EXAMINATION*

##### **Overview**

The Driver Examination function is responsible for conducting visual, written and driving examinations. In the 1988 fiscal year, approximately 435,000 road tests were conducted at the Ministry's 66 driver examination centres and 100 travel points. There were 100 full-time driver examiners. Occasionally, temporary contract staff were hired to assist the permanent driver examiners.

## Comments on Ministry and Crown Agency Audits

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### High Rate of Utilization of Examiners

The Ministry has established a standard for the amount of time it should take to administer road tests for the different types of drivers' licences offered in Ontario. The maximum possible number of applicants that can be tested by each examiner is based on the length and proximity of the test route at each examination centre.

**We reviewed the number of tests given against the maximum possible and found that the utilization rate was high. For instance, of the five district offices we visited, only one had a utilization rate of less than 80 per cent. This was the London Office which had a rate of 78 per cent.** Additionally, we noted that the number of province-wide tests per examiner increased from 2,332 in the 1987 fiscal year to 2,507 in the 1989 fiscal year.

**The Brampton and Scarborough Centres had excellent utilization rates, averaging 94 per cent.** The high rates resulted from a large demand for road tests. As well, these two centres permitted over-booking and stand-bys, thereby, further reducing the number of unused test times.

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### Excessive Backlogs of Driver Examinations

Ministry standards require that applicants be examined within six weeks of requesting a road test at examination centres. At travel points, the standard is eight weeks.

**The Ministry had significant difficulty meeting the demand for driver road tests. As of November 1988, almost 100,000 applicants were waiting to take road tests.** The Ministry had identified 25 examination centres and travel points with critical backlogs of applicants. Specifically:

- . Fifteen centres in the Central Region had examination waiting periods of more than eight weeks.
- . As of November 1988, the Brampton Centre had over 18,000 booked and a waiting period of at least 13 weeks.
- . The Scarborough Centre had a backlog of close to 24,000 individuals and a waiting period of 18 weeks.

For some applicants, a backlog in driver examinations is a frustrating delay; for others, it represents a major disruption. For instance, one individual had a new business that was extremely dependent on the use of a motor vehicle. Without the approval of the Ministry to drive, the individual was concerned about the new company's financial stability.

The backlogs are growing as there are insufficient driver examiners, particularly in the Central Region, to cope with the increased number of applicants in the last few years. We understand that in the 1989 fiscal year, the Ministry was unable to reduce the backlog by transferring examiners from less busy centres to centres in the Central Region, due to union restrictions.

## Transportation

### Examination, Inspection and Enforcement Activity

We also understand that due to a high "no show" rate, centres outside the Metro Toronto area, such as London, ceased accepting telephone bookings for road tests if the applicant did not reside in the region. For instance, if a Scarborough applicant was advised that there was an 18-week waiting period and wanted to drive to London to take the test earlier, London would refuse unless the individual applied in person, rather than by telephone.

#### Significant Variances in Pass Rates

Driver examination standards are set by the Ministry to ensure all examinations are conducted on a consistent basis throughout the province. District supervisors are required to monitor driver examiner pass rates as well as periodically observe examiners during road tests. We noted that the average provincial pass rate in the 1988 fiscal year was 67 per cent. **While some fluctuation is to be expected, our review of pass rate statistics for the five districts visited, revealed considerable variances among examination centres and even examiners at the same centre.** For example:

| <u>Exam Centre</u> | <u>Centre's Average</u> | <u>By Examiner</u> |                  |
|--------------------|-------------------------|--------------------|------------------|
|                    | Pass                    | Lowest             | Highest          |
|                    | <u>Rate</u><br>%        | <u>Rate</u><br>%   | <u>Rate</u><br>% |
| Brampton           | 53                      | 38                 | 70               |
| Scarborough        | 64                      | 44                 | 72               |
| London             | 68                      | 56                 | 81               |
| Kingston           | 79                      | 76                 | 83               |
| Thunder Bay        | 86                      | 82                 | 89               |

We had a similar observation in our 1984 Report and continue to believe that these variances may result from some examiners passing individuals with marginal driving skills who other examiners would have failed. We were informed that the Ministry had not conducted a province-wide training course for examiners in the last three years.

#### Impersonation of Applicants for Driver's Licences

Under the current system, beginner applicants are allowed to obtain a learner's permit upon successful completion of a written test. Two pieces of identification are required before this permit is issued. However, identification without a photograph is allowed.

An individual with a learner's permit may make an appointment for a road test and provide the documentation to an acquaintance who is an experienced driver. The imposter then takes the road test and, upon passing the test, is brought into the examination centre and waits in the general waiting area. Because of the crowded situation in these centres, the opportunity exists for the imposter to switch places with the individual who was impersonated, thus enabling the latter to obtain a driver's licence.

## Comments on Ministry and Crown Agency Audits

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This problem is more prevalent at busy centres. For instance, **at the Scarborough Examination Centre, during the month of February 1988, 22 persons were apprehended for taking tests for other applicants. This was the number caught. There might have been many others who were not detected.**

We understand that the Ministry is addressing this problem. For instance, a separate holding area has been constructed at the Scarborough Examination Centre for applicants who have completed the road test. Alternatively, the Ministry could take the photograph for the driver's licence when the learner's permit is issued.

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### Delays in Processing Physicians' Medical Reports

Physicians are required to submit detailed medical reports to the Ministry if they believe a driver is unable to drive safely. If the Driver Improvement Office believes that minimum medical requirements are not met, the medical report is forwarded to the Medical Advisory Committee for a final decision.

The Committee is made up of physicians who advise the Registrar of Motor Vehicles on the action to take in complex cases. Depending on the seriousness of the medical condition, such action includes lowering the classification of, or suspending, an unfit driver.

In the 1988 fiscal year, approximately 26,000 complex medicals were processed. According to Ministry standards, complex medicals should be processed within three weeks of receipt.

A sample of 60 complex medicals from the Driver Improvement Office was selected and reviewed. **Of the cases going to the Committee, it took an average of ten weeks to reach the Committee and an additional three weeks to process the medical once the Committee had made its decision.**

A further sample of 120 complex medicals was taken. These were medicals of drivers with such serious medical conditions as seizures, alzheimers and neurologically impaired vision. An average of nine weeks elapsed before a suspension notice was issued.

In two cases, individuals were involved in a vehicle accident between the time their medical report was received and the time a suspension notice was issued. One was involved in an accident while suffering from the effects of medication required for the medical condition.

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### INSPECTION AND ENFORCEMENT

#### Overview

The Inspection and Enforcement program deals primarily with larger vehicles such as trucks, tractor trailers, and buses. The program is administered by a staff of approximately 380. The program's objective is to influence and enhance highway safety by monitoring on-road compliance with the prescribed rules and regulations.

## Transportation

### Examination, Inspection and Enforcement Activity

Education and awareness programs are provided for drivers, carriers and shippers. Enforcement is provided through verbal and written warnings, vehicle detention, formal charges, convictions and fines, compliance interviews and cancellation of licence plates.

Compliance is monitored in various ways:

- 46 permanent truck inspection stations and 48 pull-off areas are used to inspect trucks for safety and weight violations.
- On-road inspectors pull trucks over, and weigh and inspect them on a surprise basis.
- Staff visit truckers' and shippers' offices to examine documents for weight violations.

#### Lack of Bus Safety Inspections

The Ministry Bus Safety Inspection program requires inspections of bus operators to ensure that the safety standards prescribed in the Highway Traffic Act and Regulations are met. Each region is responsible for the audit of all vehicles in its geographic area. In the 1988 fiscal year, over 8,600 buses were inspected, down from 9,000 and 12,400 in the 1987 and 1986 fiscal years, respectively.

**The Ministry has established a good system for classifying bus operators.** Based upon previous inspection results, bus operators are categorized as an A, B or C carrier according to the overall condition of their fleet. An "A" operator should be inspected twice annually, while a "C" operator, with a poor safety-defect history, should be inspected four times annually.

The Ministry's guidelines specify the sample sizes to be selected during each inspection. Operators with over 50 buses must have at least 10 per cent of their fleet inspected. For smaller fleets, the number to be sampled is specified. Additionally, if a major defect is found in one of the buses, an increased sample size is required.

**All districts visited had difficulty in meeting these frequency guidelines.** For example, in the Kingston District, 17 out of 20 bus operators sampled did not meet the frequency of inspection criteria based upon operator safety ratings. In fact, seven of these operators were not audited at all during the 1988 fiscal year. Similarly, in the Toronto District, 17 out of 20 operator records sampled did not meet audit frequency standards.

Additionally, during our review of operator records, **we observed that a major transit authority in the Metropolitan Toronto area had a record of numerous safety-related defects.** For example, in the 1988 fiscal year, 23 per cent of the buses inspected were detained for major defects. In the 1989 fiscal year, 13 per cent of buses inspected were detained. **Although Ministry guidelines specified that an operator with such a high defect percentage should be visited four times each year, we observed only a single inspection visit was made in each of 1988 and 1989.**

## Comments on Ministry and Crown Agency Audits

### Significant Variations in Inspection Results

The Ministry's Commercial Motor Vehicle Inspection program was established in 1974 to promote vehicle safety through the inspection of the mechanical condition of commercial vehicles. Defects were recorded in a database system from which an inspection report of defective components could be produced.

**Using this database to generate statistics on defect rates, charges laid and vehicles removed from service, we found significant fluctuations among the various regions and districts.** Some variance was expected due to the volume and type of trucks travelling in the area. **However, the extent of the differences may indicate inconsistencies in the quality of inspections being carried out province-wide.**

For example:

- . Eastern and Northern Regions reported much lower component defect rates as a percentage of vehicles examined during the 1988 fiscal year.
- . Central Region had the highest defect rate in most safety categories, although the Southwestern Region exhibited the highest defect rate for air brakes, as well as vehicles removed from service, for both the 1988 and 1989 fiscal years.

Comparison of some districts highlighted further inconsistencies:

- . Brampton and London removed 28 per cent of trucks inspected while Toronto and Ottawa removed only seven per cent.
- . London charged 25 per cent of all trucks inspected with violating the Highway Traffic Act, while Toronto charged only five per cent and Ottawa, three per cent.

We questioned whether district and head office management were aware of these inconsistencies and, if so, whether any remedial action had been taken. **We were informed that while managers were aware that statistical reports by inspector, district and region were available, the Ministry was not utilizing this information as a regular management tool.**

### Enforcement Initiatives

#### *Addressing Safety Concerns*

With the advent of deregulation of the trucking industry and recent increased public concerns over truck safety, greater emphasis is being placed on the Commercial Motor Vehicle Inspection program to ensure that trucks are mechanically safe.

**In the 1988 fiscal year, of almost 26,000 vehicles inspected, 22 per cent were found to have safety defects of a serious enough nature to warrant their removal from the road by the inspector. In 1975, approximately 15 per cent of vehicles inspected were removed from service.** Overall, since 1975, mechanical defect rates have remained relatively constant. However, air brake defect rates have shown steady increases. Such defects were largely responsible for the overall increase in vehicles removed from service.

## Transportation

### Examination, Inspection and Enforcement Activity

At first glance, these statistics may indicate that the program has not been effective in encouraging trucking operators to ensure their vehicles are mechanically safe. However, it is also possible that more defects have been found in recent years because of better trained and more conscientious inspectors.

Regardless, the Ministry has recognized that initiatives are needed to enhance overall highway safety and has reorganized its Enforcement program over the last few years. Enforcement coverage has moved from a fixed shift schedule at truck inspection stations to that of random openings of inspection stations and increased mobile patrols to intercept and weigh violators who choose to bypass inspection stations. Furthermore, the total number of commercial vehicles inspected by the Ministry's enforcement officers has increased.

#### *Better Monitoring of Problem Truck Operators*

In October 1986, the Ministry implemented an automated system to file convictions, accidents, and defaulted fines for carriers operating commercial motor vehicles.

This Commercial Vehicle Operator Registration system enables the Ministry to monitor, control and, if necessary, cancel the licence of operators who habitually contravene safety laws, standards and other regulatory requirements. Under the new system, all carriers are subjected to the same selection and enforcement criteria.

At a predetermined threshold, based on type of convictions and fleet size, a warning letter is issued. Further accumulation of convictions may result in the carrier operator being requested to attend an interview. If a reduction in convictions of 25 per cent every six months was not observed by the Carrier Control Office, a second interview would be conducted. If, after further consultation, the carrier did not reduce the conviction rate to a satisfactory level, possible suspension of the carrier's operating licences could result.

In an effort to assess the effectiveness of this system, the Ministry's Carrier Control Office analyzed data gathered for the period from October 1986 to July 1988. The results indicated the following:

- . 74 per cent of carriers warned did not require an interview.
- . 77 per cent of carriers interviewed reduced their convictions by over 25 per cent.

**Although this program is still in its initial stages, the Ministry has succeeded in encouraging operators to reduce the incidence of subsequent convictions.**

## Comments on Ministry and Crown Agency Audits

### RESPONSE

The Ministry of Transportation replied on August 16, 1989.

#### DRIVER EXAMINATION

##### **Excessive Backlogs of Driver Examinations**

*"Although the Ministry has made favourable increases to the productivity and staffing levels in the driver examination function, these positive initiatives have not kept pace with the increased level of demand for driver examination services. Short term measures such as Saturday openings for purposes of conducting the basic Class 'G' road test have been used, as has the hiring of contract staff to assist in reducing the backlogs. In addition, the Ministry recently implemented an automated road test booking system at the John Rhodes Driver Examination Centre and the Scarborough Driver Examination Centre. The Ministry plans to expand this system to minimize the occurrence of double and triple road test booking by the same applicants and thereby reduce waiting periods.*

*"Discussions are underway with Management Board with respect to the overall resource levels associated with this activity."*

##### **Significant Variances in Pass Rates**

*"The Ministry will analyze the reasons behind the variances in pass rate and put in place an appropriate management or training response.*

*"In planning stages now, for implementation in early 1990, is a one-week training program for new driver examiners. A second phase will involve driver examiners with more than six months experience. The longer term objective is to establish an annual driver examiner and driver examiner supervisor refresher course to improve consistency in driver testing between examination centres and examiners."*

##### **Impersonation of Applicants for Driver's Licences**

*"The Ministry is reviewing all its driver licencing processes with the aim of introducing major improvements in the early 1990s. This includes taking a photograph when an applicant applies for a Class L or R and Temporary Licence.*

*"In the short term, other measures such as separate holding locations for applicants at large volume centres and closer scrutiny of identification documents are under review."*

##### **Delays in Processing Physicians' Medical Reports**

*"Demand for complex medicals has increased by 17 per cent over the past three years. The desired Ministry service standard remains to process these reports within three weeks of receipt.*

## Alcoholism and Drug Addiction Research Foundation

*"In order to address the situation of drivers continuing to drive with a serious medical condition, we have introduced an Immediate Suspension Program. Medical reports concerning drivers who have developed serious medical problems and are considered by their doctors unsafe to drive are now vetted directly by the program supervisors and forwarded to the Registrar of Motor Vehicles for immediate decision. The turnaround time for this action is between 2-3 weeks, which includes the time of receipt of report to the issuance of the suspension. This process enables us to deal with the most serious medical cases in a timely fashion."*

### INSPECTION AND ENFORCEMENT

#### **Lack of Bus Safety Inspections**

*"The Ministry will review the audit frequency guidelines to ensure they permit the road and highway safety objective to be met within realistic staffing levels."*

#### **Significant Variations in Inspection Results**

*"The Ministry is addressing questions of quality and consistency in inspections on several fronts."*

*"Commencing May 1, 1989 all enforcement officers are attending an extensive two week training session to upgrade their technical skills for inspecting commercial motor vehicles in accordance with current Commercial Vehicle Safety Alliance Standards (CVSA). In addition the Ministry is exploring newer alternatives to the Commercial Motor Vehicle Inspection (CMVI) database system in order to improve the timeliness and quality of inspection information."*

### **3.15 Significant Deficiencies in Consulting Arrangement, Alcoholism and Drug Addiction Research Foundation**

The Alcoholism and Drug Addiction Research Foundation conducts research, provides educational and consultative services, and publishes informational materials on alcohol and drug addiction.

The Foundation received an operating grant of over \$30 million for the 1989 fiscal year from the Ministry of Health (Vote 1804, Item 3).

### SUMMARY

### OBSERVATIONS

In conjunction with our annual audit of the Foundation's financial statements for the fiscal year ending March 31, 1989, we had serious concerns about the awarding and control of one large consulting contract.

- . Payments to the consulting firm were three times the Foundation's share of the project costs.
- . Failure to use a competitive selection process, project terms of reference and a written contract resulted in a lack of control over payments to the consulting firm.

## Comments on Ministry and Crown Agency Audits

### COMMENTARY

Payments by the Foundation for consulting services totalled \$2 million in the 1989 fiscal year. Of this amount, \$424,000 was paid to one consulting firm to develop a corporate communications strategy.

**Our review of the arrangements which the Foundation had with this firm revealed significant deficiencies in the process used to acquire and control the consulting services being rendered.**

**A competitive selection process was not followed in spite of the Foundation policy requiring such a process for all acquisitions over \$5,000.** A competitive process helps to ensure that the best value is received for funds expended, that vendors are treated fairly, and that the consulting firm selected is the one best qualified to meet the requirements of the assignment.

**Furthermore, there were neither terms of reference established by the Foundation before acquiring the services of the consulting firm nor was there a written contract between the Foundation and the firm.** Documentation of this nature is essential to a clear understanding of the specific objectives, the expected results, and the ceiling price and time frame for the assignment.

Where an assignment is not well defined, there is no framework to control costs, and situations may arise where it becomes expedient to use the consulting firm in extending the assignment. In this regard, we noted:

- The budget framework prepared by the consulting firm estimated the total cost of developing and mounting the corporate communications strategy to be \$887,000. The Foundation's share of this was to be \$377,000, and the remainder was to be raised through corporate sponsorships. However, at the time of our audit in July 1989, no funds from corporate sponsorships had been received, and the total payments to the consulting firm from the start of the arrangement in the 1987 fiscal year, totalled approximately \$1 million.
- The consulting firm was paid \$65,000 for redesigning and writing a monthly issue of the internal newsletter "Inside ARF," which had previously been prepared by Foundation staff. Additionally, the firm was paid \$1,300 for redesigning the Foundation's Christmas cards. We do not feel that these payments were within the intent of the assignment.

In reviewing invoices from the consulting firm, we also noted the following items:

- \$91,000 for "general consulting" without any further support; and
- \$82,000 for services provided with no cost breakdown by service.

We recommended that the current arrangements with this consulting firm be reviewed and a contract be established which specifically sets out the remaining services to be provided and the costs thereof. Consideration should also be given to a competitive selection process for these remaining services.

## Province of Ontario Council for the Arts

### RESPONSE

The foregoing comments were included in a report dated August 16, 1989. As of the reporting deadline (September 15, 1989), no response had been received from the Foundation.

### 3.16

#### Grants Management Satisfactory, Province of Ontario Council for the Arts

The Province of Ontario Council for the Arts (Council) was established in 1963 by the Arts Council Act. Its mandate is to promote the study, enjoyment and production of works in the arts. The Ministry of Culture and Communications is the main source of funding for the Council.

In the 1988 fiscal year, with a staff of 51, the Council provided \$29.3 million in grants. Of this amount, \$20.3 million and \$3.8 million were given to over 1,000 organizations and more than 1,800 individuals, respectively.

### SUMMARY

#### SCOPE AND OBJECTIVES

Our objectives were to assess whether:

- . grants were properly processed and paid;
- . grants were spent by the recipients for the purposes for which they were provided; and
- . a satisfactory process was in place to measure and report on the effectiveness of grant programs in meeting their objectives.

#### CONCLUSIONS AND FINDINGS

##### APPROVAL AND PAYMENT SYSTEM

On the whole, a good system was in place for the processing and payments of grants and it was operating satisfactorily. However, some areas needed improvement.

- . Conflict of interest guidelines had not been established for the Council's staff.
- . Consistent conflict of interest procedures were needed for all panels of advisors and jurors.

##### MONITORING GRANT PURPOSES

Minimal efforts had been made to ensure that grants provided to individuals were spent for the intended purposes.

##### MEASUREMENT OF PROGRAM EFFECTIVENESS

A satisfactory process was in place to measure and report on whether grant programs were meeting their objectives and anticipated results.

## Comments on Ministry and Crown Agency Audits

### BACKGROUND

Grant applications from organizations and individuals are processed by ten grant offices of the Council. Each office administers between two and thirteen programs, for which grant applications are invited.

For the 1988 fiscal year, grants made by the ten offices were:

|                              | \$<br>(millions) |
|------------------------------|------------------|
| Music                        | 6.2              |
| Theatre                      | 5.3              |
| Literature                   | 2.7              |
| Visual arts                  | 2.4              |
| Dance                        | 2.2              |
| Arts/education               | 1.4              |
| Film/photography/video       | 1.3              |
| Franco-Ontarian              | .9               |
| Community arts development   | .8               |
| Touring and special projects | .9               |
|                              | <u>24.1</u>      |

### COMMENTARY

#### APPROVAL AND PAYMENT SYSTEM

##### Satisfactory Grant System

To ensure fairness, grants are awarded in a three-step selection process:

1. Initial screenings are done by the appropriate offices of the Council to ensure applications meet the eligibility criteria of the particular program.
2. Evaluations and recommendations by grant officers to the Board of the Council are based on artistic assessments carried out mainly by independent advisors or panels of peer adjudicators.
3. Recommended grants are approved or rejected, and the amounts set, by the Board.

**Our tests of the selection process and grants paid indicated that a good system was in place and, on the whole, was operating satisfactorily.**

##### Some Areas Needed Improvement

Improvement in the following areas would further strengthen the process:

- To maintain fairness and consistency in the selection process, those involved must be free from any conflict of interest with the applicant. The Council is required by its Memorandum of Understanding with the Ministry of Culture and Communications to have its staff follow the intent of the conflict of interest guidelines issued by Management Board of Cabinet. These guidelines provide clear guidance as to what constitutes a conflict of interest and how possible conflict of interest situations should be disclosed and resolved. However, **the Council had not established any specific conflict of interest procedures for its staff to follow.**

## Province of Ontario Council for the Arts

The Canada Council, an organization similar to the Ontario Council, had extensive written conflict of interest procedures for its employees. The procedures require staff to acknowledge, in writing, their awareness of the procedures and to disclose all activities that could give rise to a conflict of interest.

- **Conflict of interest procedures were not prepared for some of the panels of advisors and jurors.** We noted that in one office, with approximately 250 grants totalling \$5.6 million, procedures had not been provided to advisors for seven of the eight grants (\$1.5 million) that we examined.
- Where conflict of interest procedures were prepared for panels of advisors and jurors, they were not consistent among grant offices. In this regard, panels for three offices were given only general instructions to be aware of any situation which would put them in a conflict of interest. However, panels of another office were specifically instructed not to comment on the merits of any organizations or groups for which they were officers or directors. We noted that an advisor on a panel of this latter office participated in the process, resulting in a grant of \$91,500 to an organization of which the advisor was a Board member.

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### *MONITORING GRANT PURPOSES*

#### **Verification Procedures Weak**

Most operating grants to organizations are provided for the general art objectives of the organizations and, therefore, are not restricted to expenditures for specific purposes. Such grants account for about 15 to 20 per cent of the total revenue of these organizations.

However, grants to individuals are usually provided by the Council for projects with specific purposes, such as developing an outline for a screenplay into a first draft. Accordingly, we concentrated on the procedures used by the Council to ensure grants made to individuals were spent for the intended purposes.

**The Council had not established corporate policies and procedures to monitor the use of grants by individuals.** However, we were informed that, in some cases, individuals were required to provide information to the Council, such as audited expenditure statements, copies of receipts and written reports on the status of the projects. In other cases, no information was required. **Decisions about the information to be provided were made on a program-by-program basis.**

To determine the extent to which the Council was monitoring grants to individuals, we selected a sample of 17 grants, totalling \$192,000, made by five grant offices during the 1987 and 1988 fiscal years.

For ten of these grants, totalling \$155,000, the individuals concerned were required to submit reports to the Council on how the money was spent. However, reports were provided for only six grants totalling \$67,000. No follow-up was done by the Council to obtain the remaining four reports.

## Comments on Ministry and Crown Agency Audits

Furthermore, for the ten grants, **there was no evidence to indicate that the Council exercised any other independent verification, such as having staff visit the individuals or perform other specific procedures to verify information provided, to ensure that the grants were spent for the intended purposes.**

For the remaining seven grants, totalling \$37,000, the individuals were not required to submit reports to Council. Again, there was no evidence to indicate that specific verification procedures were performed.

Due to the lack of follow-up by the Council, we selected a sample of ten grants totalling \$108,000 and visited the recipients. We were satisfied that these grants had been spent as intended. However, without an ongoing grant monitoring system, grants could be readily used for purposes other than that intended without the knowledge or consent of the Council.

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### MEASUREMENT OF PROGRAM EFFECTIVENESS

#### Satisfactory Process in Place

In 1984, the Special Committee for the Arts recommended that the Council undertake a two-year internal restructuring of its priorities and establish a new policy for providing arts funding in the Province in the coming decade.

The result of this recommendation was the commencement, in 1985, of a program-by-program review by the Council of 70 grant programs, totalling approximately \$18.3 million in that year. Each program was to be evaluated in terms of whether it was meeting its objectives and anticipated results. The objectives themselves were to be examined to ensure that they continued to be appropriate.

The Council hired consultants and researchers on a contract basis to assist in the completion of the evaluations and to prepare the report on each program. As at July 1988, 34 of the 70 programs, funded at approximately 60 per cent of the 1985 expenditure, had been evaluated. Actions by the Council on recommendations made in the reports have either been made or are in the process of being made.

**We concluded that a satisfactory process was in place to evaluate and report on the effectiveness of the Council's grant programs.**

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#### RESPONSE

The Chair of the Ontario Arts Council responded to our report on August 30, 1989.

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#### APPROVAL AND PAYMENT SYSTEM

The response indicated that the Council was pleased with the audit finding that, on the whole, a good system was in place and was operating satisfactorily.

The Council agreed with the conflict of interest comments and stated that it has begun work on preparing appropriate conflict of interest guidelines for all parties involved in the granting process.

## Newly Established, Terminated and Inactive Crown Agencies

### MONITORING GRANT PURPOSES

*"For many years Council has wrestled with the challenge of developing grant monitoring practices appropriate to the circumstances of individual practicing artists. In an effort to ensure that monitoring procedures are relevant to individual arts disciplines, most follow-up procedures at OAC are determined on a program-by-program--rather than corporate--basis, and this has led to a number of apparent inconsistencies.*

*"Over time, Council has become aware that satisfying the dual objectives of maintaining accountability for public money while accommodating the distinct circumstances of the arts communities it serves would be assisted by developing a broad set of corporate policies dealing with the monitoring of individual grants. These policies would identify what kinds of monitoring procedures are appropriate for what programs, and remove current misunderstandings about procedural inconsistencies.*

*"Council wishes to make clear that its interest in this area does not stem from any suspicion or evidence of abuse by the artists OAC supports. On the contrary, Council has been consistently impressed by the integrity and professionalism of practicing artists in Ontario, and is pleased to learn that after visiting ten individual grant recipients the Provincial Auditor's staff 'were satisfied that these grants had been spent as intended.'*

*"... Council is prepared to develop within the next two years a series of written corporate policies dealing with the monitoring of individual grants. These policies will encompass a number of different kinds of monitoring procedures depending on the nature of the program and arts practice concerned."*

### MEASUREMENT OF PROGRAM EFFECTIVENESS

*"Council is proud of the work that has been accomplished in program evaluation over the past four years, and is pleased to note your conclusion that 'a satisfactory process was in place to evaluate and report on the effectiveness of the Council's grant programs.'"*

### 3.17 Newly Established, Terminated and Inactive Crown Agencies

#### NEWLY ESTABLISHED AGENCIES

Two agencies of the Crown were established during the 1989 fiscal year.

#### *Northern Ontario Heritage Fund Corporation*

The Corporation was established with the passage of the Northern Ontario Heritage Fund Corporation Act on June 1, 1988. The objects of the Corporation are:

- . to provide advice and make recommendations relating to the growth and diversification of the economy of Northern Ontario;
- . to promote and stimulate economic initiatives in Northern Ontario; and

## Comments on Ministry and Crown Agency Audits

- . to commission studies and enter into contracts relating to the two aforementioned objects.

The Corporation will also establish and maintain the Northern Ontario Heritage Fund which will receive \$30 million annually over the next 12 years.

### *Ontario Training Corporation*

This Corporation was established on April 27, 1988 by articles of incorporation under the Business Corporations Act, 1982 (Ontario). Its objects are:

- . to support the development of sophisticated and competitive workplace training in Ontario;
- . to operate a Skills Bank that offers a broad information base on training products and services;
- . to invest in the development of training materials which meet the workplace needs of selected sectors in the economy;
- . to invest in the development of technologies to be applied in workplace training; and
- . to strengthen the skills of trainers and training professionals in the province.

One established Government agency became a Crown controlled corporation during the 1989 fiscal year.

### *Ottawa Congress Centre*

The Centre was originally established as a regional convention centre under the authority of the Regional Municipality of Ottawa-Carleton Act, R.S.O. 1980, Chapter 439. The convention centre is now incorporated as a corporation without share capital following the proclamation, on October 1, 1988, of the Ottawa Congress Centre Act, 1988. The objects of the Centre are to operate, maintain and manage an international-class convention centre facility in a manner that will promote and develop tourism and industry in Ontario.

Initial audits of the three new agencies have been completed for their respective periods of operation to March 31, 1989.

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### TERMINATED AGENCIES

#### *Corporation of the Improvement District of Dubreuilville Corporation of the Improvement District of Shedden*

Section 11 of the Municipal Act states that: "Upon the application of an improvement district having a population of not less than 500, the Municipal Board may erect the improvement district into a village or a township." The above-mentioned improvement districts have changed their status to that of townships, effective January 1, 1989, and no longer are subject to audit as Crown controlled corporations.

## Newly Established, Terminated and Inactive Crown Agencies

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### *Ontario Centre for Automotive Parts Technology*

Under a sale agreement effective February 28, 1989, the Crown controlled corporation ceased operating and all contracts were assumed by a private corporation.

### *Ontario Centre for Farm Machinery and Food Processing Technology*

In January 1989 the Province decided to wind down the operations of this Crown controlled corporation by March 31, 1989. All assets of the Centre were transferred to the Province at a nominal value of \$1.

### *Ontario Centre for Microelectronics*

Under a sale agreement dated November 2, 1988, the fixed assets of this Crown controlled corporation were transferred to a private corporation. The affairs of the Centre were terminated effective March 31, 1989, when the remaining assets and all rights, obligations and liabilities were transferred to the Province.

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### *INACTIVE AGENCIES*

As at March 31, 1989 there were seven inactive Crown agencies.

#### *Agencies of the Crown*

The John Graves Simcoe Memorial Foundation  
 North Pickering Development Corporation  
 Ontario Deposit Insurance Corporation  
 Ontario Land Corporation  
 Ontario Pavilion Expo '86

#### *Crown Controlled Corporations*

Ontario Van Pool Organization Limited



## CHAPTER

4PUBLIC ACCOUNTS  
OF THE PROVINCE



## CHAPTER 4

### PUBLIC ACCOUNTS OF THE PROVINCE

#### 4.1 Preparation of the Public Accounts

In accordance with the Ministry of Treasury and Economics Act, the three volumes of the Public Accounts are prepared under the direction of the Treasurer. They are delivered to the Lieutenant Governor in Council and are laid before the Assembly not later than the tenth day of the first session held in the following calendar year.

The audit of the Public Accounts consists of an examination of the financial statements of the Province on which the Provincial Auditor expresses an opinion, and a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

- (a) in which the Province has an investment, or
- (b) which have borrowed from the Province, or
- (c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies, which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of each ministry's expenditures, such as salaries and wages, employee benefits, travelling expenses and other payments. The expenditures are shown under two main categories: Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any relevant comments would be included in this Chapter of our Annual Report.

#### 4.2 Financial Statements of the Province

The audited financial statements of the Province for the year ended March 31, 1989 are reproduced in the Province's Financial Report and in the Public Accounts, Volume 1. The financial statements and notes disclose, in summary form, the financial activities of the Province for the fiscal year. They also report on the significant aspects of the Province's financial position at the close of the fiscal year.

An integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on pages 1-2 and 1-3 of Volume 1 of the 1988-89 Public Accounts. Such a Summary is included in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of Government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by the private sector and those followed by the Province of Ontario.

As covered in the Summary of Significant Accounting Policies in the Public Accounts, Ontario's financial statements are prepared using the cash basis of accounting. In the case of cash outflows, this basis is modified to allow for an additional 30 days to pay for obligations incurred during the fiscal year just ended.

## Public Accounts of the Province

The Office of the Treasury, responsible for financial statement preparation, maintains that the present cash basis of accounting is precise, well-understood and is no less informative than the accrual basis of accounting. The method used is appropriate to the needs of its two primary user groups, legislators and the general public.

The Office of the Provincial Auditor fully supports this position.

### 4.3 Provincial Auditor's Opinion

Under the Audit Act, the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts. Furthermore, this opinion states whether these policies have been applied consistently with those of the preceding year.

The Provincial Auditor's opinion is stated as follows:

I have examined the statement of financial position of the Province of Ontario as at March 31, 1989 and the statements of financial transactions, revenue, expenditure, other accounts and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly, in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies, the financial position of the Province as at March 31, 1989 and the results of its operations and the changes in its financial position for the year then ended. Further, in my opinion, except for the change in accounting for cash inflows as explained in Note 10 to the financial statements, these Policies have been applied on a basis consistent with that of the preceding year.

The terms "in my opinion" and "present fairly" in the preceding paragraph indicate that my examination was carried out to provide a high degree of assurance that the financial statements of the Province do not contain material aggregate error. More specifically, I am 99 per cent confident that the total of any errors in the financial statements is less than \$75 million.

Toronto, Ontario.  
July 20, 1989.

  
D.F. Archer, F.C.A.,  
Provincial Auditor.

## In-year Changes Affecting the Deficit

### 4.4 Advance Payment of Grants and Change in Accounting Policy - Their Effect on the Deficit

#### Grants

During the latter part of the fiscal year, the Government announced that certain grants, which normally would have been paid during the 1990 fiscal year, would be preflowed to recipients and charged to expenditure for the year ended March 31, 1989.

The advance payment of these grants was authorized by Supplementary Estimates and Management Board Orders. The recipients and nature of these grants, which totalled \$823 million, are:

|  | \$ millions |
|--|-------------|
| . Municipalities - unconditional grants                                      | 413         |
| . School boards - elementary and secondary construction projects             | 300         |
| . Universities and community colleges - construction and renovation projects | 110         |
| TOTAL  | <u>823</u>  |

It should be noted that the Budget for the 1990 fiscal year indicates capital advances to school boards, universities and community colleges will again be preflowed. No such indication is given with regard to unconditional grants to municipalities.

#### Change in Accounting Policy

As covered in Note 10 of the Province's March 31, 1989 financial statements, the accounting policy for cash inflows was changed. Prior to the 1989 fiscal year, cash inflows comprised both cash received and cash in transit as at March 31 (i.e. cash received in April that was in transit by March 31). Commencing with the year ended March 31, 1989, cash inflows no longer include cash in transit.

Due to this change, cash in transit of \$122 million, which previously would have been taken in as revenue in the 1989 fiscal year, will now be treated as 1990 fiscal year revenue.

## Public Accounts of the Province

### Effect on Deficit

The preceding actions increased the 1989 deficit as follows:

|                 | \$ millions |
|-----------------|-------------|
| Grant preflows  | 823         |
| Cash in transit | 122         |
| <b>TOTAL</b>    | <b>945</b>  |

The Public Accounts of the Province reported a deficit of \$1.479 billion for the year ended March 31, 1989. Had the preflowing of grants and the change in the accounting policy not taken place, the reported deficit would have been \$534 million.

#### 4.5

### The Consolidated Revenue Fund - Authorized and Actual Payments

#### Authorized Payments

In our parliamentary system of government all public moneys received are deposited in a single fund, the Consolidated Revenue Fund. The pooled moneys of the Fund are only made available for expenditure by specific approval and appropriation by the legislative body. Thus the payments out of the Consolidated Revenue Fund are made pursuant to the following approval mechanisms:

#### *Voted Appropriations*

Estimates and Supplementary Estimates are formalized annually as Voted Appropriations when the Legislature approves the Supply Act.

When the Legislature is in session, motions of interim supply adopted by the Legislature authorize payments from appropriations prior to the passage of the Supply Act.

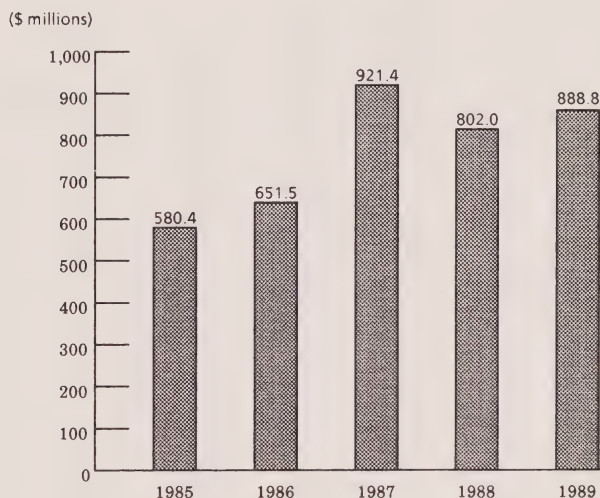
The Supply Act, 1989, covering the year ended March 31, 1989, received Royal Assent on March 2, 1989.

## The Consolidated Revenue Fund

### Management Board Orders

Where a Voted Appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, Section 5 of the Management Board of Cabinet Act provides that the Board may make an order authorizing payments to be made against such amounts as it considers proper.

The following chart is a summary of the Management Board Orders issued for the past five years:



By way of additional information, the Management Board Orders for the 1989 fiscal year are summarized by month of issue as follows :

| Month of Issue                  | Number    | Authorized<br>\$   | %            |
|---------------------------------|-----------|--------------------|--------------|
| August 1988 to<br>February 1989 | 18        | 55,228,000         | 6.2          |
| March 1989                      | 40        | 752,141,100        | 84.6         |
| April 1989                      | <u>20</u> | <u>81,476,400</u>  | <u>9.2</u>   |
|                                 | <u>78</u> | <u>888,845,500</u> | <u>100.0</u> |

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in *The Ontario Gazette*, together with explanatory information.

## Public Accounts of the Province

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### *Special Warrants*

When the Legislature is not in session, Section 4 of the Management Board of Cabinet Act provides for the issue of a Special Warrant authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good. Special Warrants are authorized by orders in council approved by the Lieutenant Governor on the recommendation of the Government.

No Special Warrants were issued during the 1989 fiscal year.

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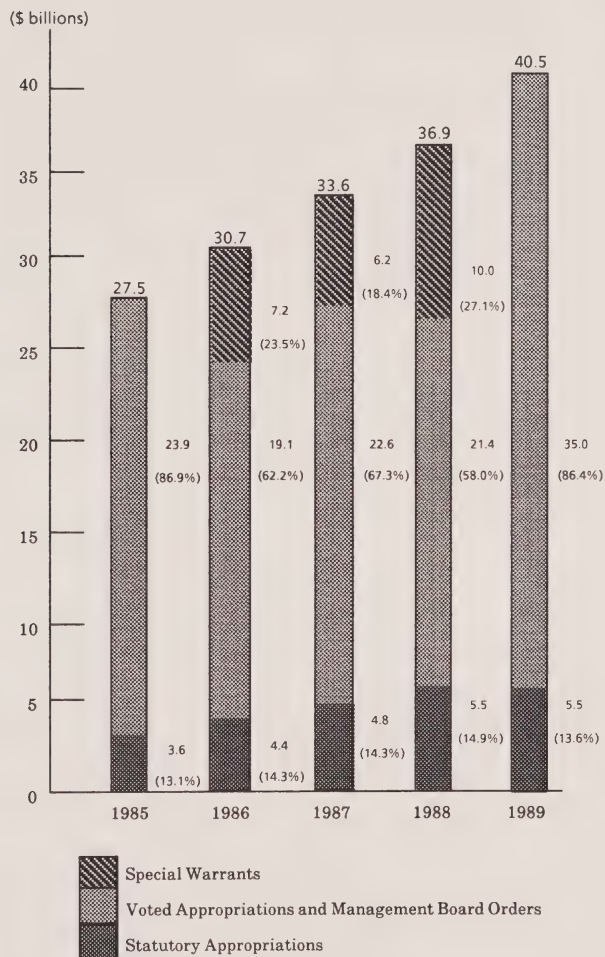
### *Statutory Appropriations*

Payments from Statutory Appropriations represent those where the specific authority to spend money from the Consolidated Revenue Fund is expressly contained in a statute of the Legislature.

Once a statute is enacted by the Legislature no further specific approval of statutory expenditures is required. However, for the information of the Legislature, Statutory Appropriations are noted in the annual Estimates and represent the amount the Government estimates will be spent in accordance with the authority given in the various statutes. Unlike Voted Appropriations, Statutory Appropriations do not require Management Board Orders when spending exceeds the estimated amount.

## The Consolidated Revenue Fund

### Authorized Payments: Five-year Summary



## Public Accounts of the Province

### Actual Payments

The following is a comparative summary (in \$ billions) of payments out of the Consolidated Revenue Fund:

|                          | 1985        | 1986        | 1987        | 1988        | 1989        |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Voted Appropriations     |             |             |             |             |             |
| Estimates                | 22.9        | 17.9        | 21.0        | 20.0        | 33.3        |
| Management Board Orders  | <u>.5</u>   | <u>.6</u>   | <u>.9</u>   | <u>.8</u>   | <u>.9</u>   |
|                          | 23.4        | 18.5        | 21.9        | 20.8        | 34.2        |
| Statutory Appropriations | 3.6         | 4.4         | 4.8         | 5.5         | 5.5         |
| Special Warrants         | <u>-</u>    | <u>7.2</u>  | <u>6.2</u>  | <u>9.9</u>  | <u>-</u>    |
| Total Payments           | <u>27.0</u> | <u>30.1</u> | <u>32.9</u> | <u>36.2</u> | <u>39.7</u> |

### Comparison of Authorized and Actual Expenditures

The comparison for the fiscal year ended March 31, 1989 is as follows:

|                         | Authorized<br>(\$ millions) | Actual<br>(\$ millions) | Actual<br>Under (Over)<br>Authorized<br>(\$ millions) |
|-------------------------|-----------------------------|-------------------------|---|
| Voted Appropriations    |                             |                         |   |
| Estimates               | 34,104                      | 33,339                  | 765   |
| Management Board Orders | <u>889</u>                  | <u>859</u>              | <u>30</u>   |
|                         | <u>34,993</u>               | <u>34,198</u>           | <u>795</u>  |

As has been the case for the last several years, the total actual payments of \$34,198 million slightly exceeded the voted amount of \$34,104 million authorized in the Supply Act. Ministries anticipating overexpenditure situations in their programs obtained authorization for the additional spending through Management Board Orders. As a result, expenditures were \$795 million less than the total authorized.

A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 5 of this Report.

## Write-off of Uncollectible Accounts

### 4.6

#### Write-off of Uncollectible Accounts

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

#### Public Accounts Presentation

As explained in the Public Accounts' Summary of Significant Accounting Policies, the assets recorded in the financial statements are those resulting from financial claims on other parties which have been created by cash transactions. Accordingly, loans, advances and investments made by the Province are normally included as assets on the Statement of Financial Position. Accounts receivable, on the other hand, are not so included, since they are not the result of cash transactions.

For the most part, accounts receivable represent amounts owing to the Province under various revenue-producing activities. In addition, certain loans are included in memorandum accounts receivable rather than on the Statement of Financial Position. These loans have one or more of the following characteristics:

- . either no specific security or security of limited value;
- . no specific repayment terms;
- . repayment is conditional only on future uncertain events.

These loans are considered to be in the nature of "recoverable grants" and are treated as expenditure when made. When repayments are received, they are treated as revenue. The major examples of loans in this category are the Ontario Rental Construction Loan Program and the Non-Residential Rental Conversion Pilot Project.

A memorandum listing of the \$931.6 million in outstanding accounts receivable as at March 31, 1989 (1988 \$786.1 million) is provided on pages 3-24 to 3-27 of Volume 1 of the Public Accounts.

Most write-offs do not affect the Net Debt of the Province as they relate to the memorandum accounts receivable. The major exceptions relate to the write-off of performance and term loans made by the Development Corporations from funds advanced by the Province. The advances are recorded as assets in the Statement of Financial Position. When performance loans are forgiven, or term loans are deemed uncollectible, the Corporations write off the loans, and moneys appropriated by the Legislature for that purpose are used by the Corporations to repay their corresponding advances. The appropriated moneys are treated as expenditures for Public Accounts purposes and thus affect the Province's Net Debt.

#### 1989 Write-offs

A total of \$75.9 million was written off in the 1989 fiscal year (1988 \$53.9 million), as indicated on page 3-21 of Volume 1 of the Public Accounts. The two major write-offs for 1989 related to the following:

## Public Accounts of the Province

- A \$28.2 million write-off by the Ministry of Revenue for unpaid taxes and GAINS overpayments. The major write-offs were as follows:

(\$ millions)

|                      |      |
|----------------------|------|
| Corporations Tax Act | 19.5 |
| Retail Sales Tax Act | 7.0  |

- A \$13.2 million write-off by the Ministry of Industry, Trade and Technology for uncollectible loans made under the Development Corporations Act and by the former Board of Industrial Leadership and Development (BILD). Borrowers had gone bankrupt, into receivership or collection was considered doubtful.

Other write-offs of uncollectible debts included the following:

The Ministry of Financial Institutions wrote off \$11.0 million in uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund. Most of this write-off related to claims/judgements on which no payment had been received for five years, or in cases of bankruptcy, death or an inability to locate the debtor.

The Ministry of Agriculture and Food wrote off \$10.4 million in defaulted guaranteed bank loans under the Ontario Farm Adjustment Assistance Program. This represented the balance of guarantees paid to banks after applying any proceeds of liquidation of farmers' assets.

Uncollectible accounts totalling \$8.2 million in fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General. Virtually all of these write-offs involved accounts at least four years old.

The Ministry of Community and Social Services wrote off \$1.9 million with respect to overpayments under the Family Benefits Act. The major portion of this write-off related to individuals whose whereabouts were unknown, or who were unable to repay.

The Ministry of Colleges and Universities wrote off \$1.8 million for various student support programs. The major portion of this write-off pertained to loans made to students who were unable to pay or whose whereabouts were unknown.

### 4.7

#### Transfers Authorized by Board of Internal Economy

When the Board of Internal Economy authorizes the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same Vote, the Provincial Auditor is required to make special mention of the transfer(s) in his report.

In respect of the 1988-89 expenditure estimates, the following transfers totalling \$796,200 were made within Vote 201:

|       |        |                        |           |
|-------|--------|------------------------|-----------|
| From: | Item 2 | Office of the Clerk    | \$796,200 |
| To:   | Item 3 | Sessional Requirements | 590,650   |
|       | Item 4 | Members' Indemnities   | 205,550   |

CHAPTER

5

OFFICE OF THE  
PROVINCIAL AUDITOR



## CHAPTER 5

### OFFICE OF THE PROVINCIAL AUDITOR

#### 5.1

#### Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects, including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is appointed an officer of the Legislative Assembly, and therefore is not an employee of the Government. The appointment is made by the Lieutenant Governor in Council on the address of the Assembly after consultation with the Chairman of the Standing Committee on Public Accounts. The Auditor may be removed for cause, at any time, by the Lieutenant Governor in Council on the address of the Legislative Assembly.

Administratively, the Office of the Provincial Auditor is distinctly separate from any Government ministry or Crown agency, and its employees are not members of the public service. The Office's resource requirements are subject to approval by the Board of Internal Economy, an all-party legislative committee independent of the Government's administrative process.

The Audit Act requires the Provincial Auditor to present the Office's annual expenditure estimates to the Board for review and approval. The Chairman and Vice-chairman of the Standing Committee on Public Accounts may attend the review of the estimates.

In accordance with Section 28 of the Audit Act, the accounts related to the Office's expenditure for the year ended March 31, 1989 were audited by a firm of chartered accountants. The audited statement of expenditure, together with the report, have been submitted to the Board of Internal Economy and tabled in the Assembly. They are reproduced in Section 5.10.

#### 5.2

#### Office Goals

The primary goal of the Provincial Auditor is:

- to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor's secondary goal is as follows:

- to assist Deputy Ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

The Provincial Auditor seeks to achieve these goals by conducting value for money, attest and compliance audits; by presenting individual audit reports to the respective Deputy Ministers/agency heads; and by presenting an Annual Report to the Legislature.

## Office of the Provincial Auditor

### 5.3

#### Audit Responsibilities

Auditing in Government comprises the following areas:

- ministries, including transfer payment recipients;
- agencies of the Crown and Crown controlled corporations; and
- the Province's financial statements.

The participants in the audit process may include internal auditors, public accounting firms and the Provincial Auditor.

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#### Internal Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their responsibilities include the auditing of both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability considerations.

In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry/agency internal audit branches.

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#### Public Accounting Firms

Public accounting firms are involved in the audits of some agencies of the Crown and all Crown controlled corporations.

A listing of the seven agencies of the Crown audited by public accounting firms for the year ended March 31, 1989 is included as part (ii) of Exhibit 3. The 31 Crown controlled corporations audited by public accounting firms for the year ended March 31, 1989 are listed in Exhibit 4.

#### *Agencies of the Crown*

Section 9(2) of the Audit Act stipulates that public accounting firms auditing agencies of the Crown must perform the audit under the direction of, and report to, the Provincial Auditor.

#### *Crown Controlled Corporations*

Under Section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor, together with a copy of their findings and recommendations to management (management letter). Currently, our Office reviews the auditors' working papers and other documents on a cyclical basis of at least once in a four-year period and, where necessary, requests explanations and information concerning the nature and extent of the audit work carried out and the results obtained.

Reviews conducted through August 31, 1989 are identified in Exhibit 4.

## Audit Activities

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### The Provincial Auditor

#### *Primary Audit Responsibilities*

The primary audit responsibilities of the Provincial Auditor involve conducting value for money, attest and compliance audits at ministries and agencies of the Crown.

#### *MINISTRIES*

In conformity with Section 9(1) of the Audit Act, all ministries are subject to legislative audit. In addition to the annual attest audit work in ministries required to enable the Provincial Auditor to express an opinion on the Province's financial statements, audits which are primarily of a value for money nature are also undertaken in ministries. A listing of the ministry audits covered by this Report appears in Exhibit 2.

#### *AGENCIES OF THE CROWN*

Section 9(2) of the Audit Act states that where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Provincial Auditor is to perform the audit. For the year ended March 31, 1989, the Provincial Auditor had direct audit responsibility for 67 agencies of the Crown. These agencies are listed in part (i) of Exhibit 3.

#### *Additional Audit Responsibilities*

Under Section 16 of the Act, the Provincial Auditor is required to examine any matter respecting the Public Accounts if directed by the Standing Committee on Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by either the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

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## 5.4

### Audit Activities

#### **Types of Audits**

Audits undertaken by this Office are of three types: value for money, attest and compliance. All such audits are performed in accordance with generally accepted auditing standards, including those established for value for money auditing. A brief description of each of these categories follows.

## Office of the Provincial Auditor

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### *Value for Money*

Value for money audits, covering various Government and Crown agency programs and activities, are designed to assess components of the management function related to economy, efficiency and procedures to measure effectiveness.

Detailed background information concerning the operation of the program or activity being audited is gathered from various internal and external sources. Suitable criteria are developed and discussed with management. "Criteria" may be defined as reasonable and attainable standards of performance and control against which the adequacy of the management function can be assessed. The audit process concludes with objectively obtaining and evaluating evidence to ascertain the degree of correspondence between the matters subject to audit and the criteria.

In conducting value for money audits, it is not part of the Office's mandate to evaluate the effectiveness of programs, or to develop standards to measure efficiency of program delivery. These are ministry/agency management functions. Our responsibility is to assess the extent to which these functions have been carried out by management.

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### *Attest*

The Office conducts attest (financial) audits on the annual financial statements of the Province and numerous Crown agencies. These audits are designed to attest to (express a professional opinion on) a set of financial statements. This attestation (or opinion) states whether the operations and financial position of an entity have been fairly presented in compliance with the entity's stated accounting policies, and whether such policies are consistent with those used in the previous year.

Internal controls are methods and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. To rely on internal controls, the auditor must carry out tests to be satisfied that the controls are operating effectively.

In addition, the auditor must obtain other evidence and conduct further testing of the validity of the transactions recorded in, and balances produced by, the accounting system.

As part of our ministry audit activities, or on a Government-wide basis, the Office also periodically conducts financially oriented audits to assess the adequacy and proper functioning of specific internal controls.

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### *Compliance*

Compliance audit work is generally carried out in conjunction with our value for money and attest auditing. Compliance auditing assesses is designed to assess whether transactions and other aspects of operations are in compliance with legislative and other requirements.

## Audit Activities

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Compliance audits focus primarily on legislative requirements. Legislation, regulations, orders in council and corporate by-laws may set out directions, conditions and limitations that affect the administration and transactions of ministries and agencies, and with which they must comply.

Compliance audits also relate to administrative requirements. Generally, legislation delegates broad financial and administrative powers to governments, ministries and agencies which in turn may establish specific operative rules and directives.

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### Audit of Transfer Payments

#### *General*

Transfer payments, comprising over 70 per cent of Government expenditures, are payments for which the Province does not directly receive goods or services. The payments may be for specific purposes (such as the funding of school boards and universities), or they may be unconditional (such as per capita grants to municipalities).

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#### *Attest/Compliance*

The Office's attest and compliance activities include the testing of selected transfer payments for proper authorizations and calculations, and for compliance with legislative and administrative requirements.

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#### *Value for Money*

Value for money auditing can assist funding ministries/agencies to fulfill of their responsibility of ensuring that transfer payments are well-managed by the recipients, that is, spent with due regard for economy, efficiency and effectiveness. Such audits may be conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries/agencies.

The Provincial Auditor is not directly involved in this value for money audit process. However, the Provincial Auditor may become indirectly involved when assessing the steps taken by a ministry to satisfy itself that funds provided to organizations are well-managed.

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#### *Inspection Audits of Transfer Payment Recipients*

Section 13 of the Audit Act enables the Provincial Auditor to perform an inspection audit of a transfer payment recipient. Inspection audits are defined as examinations of accounting records. Although value for money observations may arise as a by-product of inspection audits, the audits are not normally value for money oriented.

The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit. In keeping with the trend towards greater Government accountability, in recent years this Office has expanded inspection

## Office of the Provincial Auditor

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audit activity specifically to include the major recipients of transfer payments. Since 1984, the Office has undertaken special reviews of community colleges, universities and hospitals in Ontario.

Inspection audits may also be carried out by ministry internal auditors pursuant to the terms of agreements with the grant recipients.

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### Scheduling of Audit Activities

#### *Ministry Audits*

The Office conducts cyclical audits of major ministry programs with expenditures of over \$30 or \$40 million. Such audits are primarily value for money and report specifically on the administration of programs and activities by management. All major programs are considered for audit over a five-year period. Although our audits assess activities in the 12 months preceding commencement of the audit, we may extend the period of coverage as circumstances warrant.

In determining which programs to audit each year, the Office considers such factors as total expenditures, impact of the program on the public, diversity and complexity of operations, and the length of time since the last audit by our Office or by the internal audit branch within the relevant ministry. As well, the Office may undertake special assignments at ministries and their agencies as directed by the Legislature.

In addition to these cyclical audits, annual attest audit work is required in the ministries for the expression of an opinion on the Province's financial statements.

Ministry expenditure systems that are processed centrally are audited on a Government-wide basis at least once during a four-year period. Ministry financial systems that are not centralized are audited on a ministry-by-ministry basis, as are the major revenue activities across Government.

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#### *Agency Audits*

Agency of the Crown audits are conducted on an annual basis as required by legislation. While audit staff are always vigilant in identifying uneconomical practices or inefficiencies during regular attest/compliance audits, the Office also periodically performs more in-depth value for money audits at selected agencies.

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### Government Policy Not Audited

As the executive and policy decision-making authority of the Government, the Cabinet is ultimately accountable to the Legislature and to the public for the policies and programs of the Government.

The democratic process requires all Government actions to be based on legislative authority and direction. Through questions in the House and reviews of legislation and estimates of expenditures, the Legislature continually monitors and challenges Government policies and programs. Consequently, this Office does not audit Government policies, or information contained in Cabinet

## Ministry and Agency Reports

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documents used in policy deliberations or decisions. Rather, the Office audits the administration of Government programs and activities as carried out by ministries, agencies of the Crown and central agencies under these policies.

### 5.5

#### Ministry and Agency Reports

#### Reporting Process

At the conclusion of each audit, a draft report is discussed with senior ministry/agency officials and, where necessary, revised to reflect matters raised in the discussion or by senior Office management in the final review. A final report is issued to the Minister and Deputy Minister or, for agencies, to the Board of Directors and the Minister of the associated ministry. In all cases, a copy of the final report is sent to the Secretary of the Management Board of Cabinet. If requested by the ministry or agency, the Office will discuss any aspects of the final report on which it wishes clarification or further information.

Exhibits 2 and 3 provide a listing of the ministry and agency audits conducted since our last Report.

### 5.6

#### Additional Reporting Matters

#### Special Assignments

The Office's additional reporting responsibilities, pursuant to Sections 16 and 17 of the Audit Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (October 1988 to August 1989) covered by this Report, the Office was asked to undertake two special assignments.

At the request of the Minister of Tourism and Recreation, the Office has undertaken an in-depth review of the decision-making processes at Ontario Place Corporation including, in particular, a review of the Board of Directors' responsibilities and inputs regarding purchasing processes and contract management, decision-making authorities, and overall accountability related to the management of the Corporation's operations. We expect to report to the Minister in the fall of 1989.

Additionally, the Standing Committee on Public Accounts requested the Provincial Auditor to conduct an audit of the process used to award a Ministry of Housing contract to a particular consultant (see Section 6.3 - Motions passed at meetings).

## Office of the Provincial Auditor

### 5.7

#### Annual Report

#### Reporting Process

Under Section 12 of the Audit Act, the Provincial Auditor is required to report through the Speaker to the Legislative Assembly on the results of his examinations.

The main body of the Annual Report consists of sections extracted from audit reports on ministries and agencies issued during the period to August 31, 1989. These extracts are selected by senior management using criteria which include significance in terms of effect on Government expenditures/revenues; public sensitivity or safety (environment, health care); and management of Government programs (economy, efficiency, effectiveness). Also included is information which is perceived to be of interest to the Legislature/public.

The subsequent steps in the preparation of the Annual Report are as follows:

- Selected report items and relevant ministry/agency responses received up to September 15 only (due to printing deadlines) are included in the Annual Report.
- The Report is tabled in the Assembly and subsequently referred to the Standing Committee on Public Accounts for review.
- Ministry/agency responses received after September 15, pertaining to sections contained in the Report, are forwarded to the Committee.
- The Committee calls upon representatives of the ministries or agencies to discuss selected sections of the Report.

#### *Annual Report Briefing*

Each year an Annual Report briefing is held prior to the tabling of the Report. Arrangements are made for two separate and simultaneous lockups: one for members of the Legislature and their research staff, and one for representatives of the media. The lockups are concluded with a news conference, at which time the Provincial Auditor is available to answer the media's questions.

### 5.8

#### Public Disclosure of Reports

#### Annual Report

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

#### Other Reports

This Office does not present the Legislative Assembly, or a committee of the Assembly, with the following reports:

## Public Disclosure of Reports

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- any individual audit reports issued at the conclusion of each ministry or agency audit;
- reports to management by the auditors of agencies of the Crown and Crown controlled corporations; or
- reports on our special assignments for a Minister.

However, the Standing Committee on Public Accounts, or any other committee of the Legislature, may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and, according to Section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are presented.

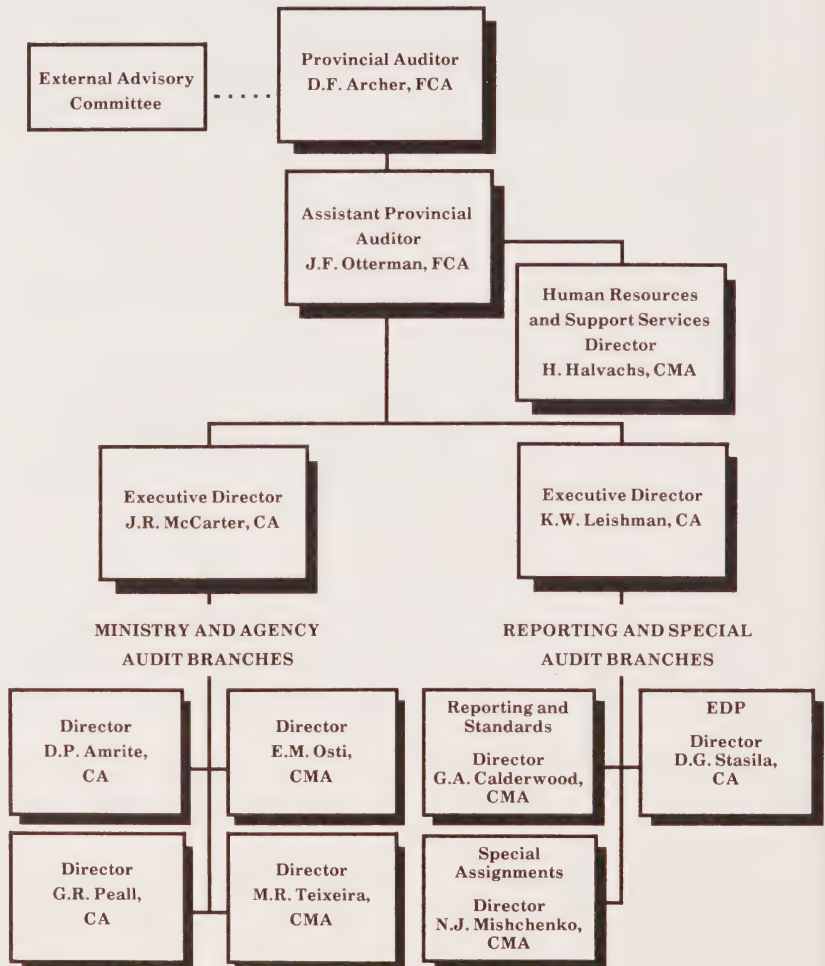
This Office declines requests from the public and media representatives for access to our issued audit reports. In this regard, it should be noted that the access provisions of the Freedom of Information and Protection of Privacy Act, 1987, do not apply to the Office of the Provincial Auditor. The Office has not been designated as an institution to which the Act applies.

## Office of the Provincial Auditor

### 5.9

#### Office Organization and Personnel

The Office is organized as follows:



## Office Organization and Personnel

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### *Ministry and Agency Audit Branches*

These four audit branches are responsible for the cyclical audits of ministries and annual audits of agencies of the Crown.

### *Reporting and Standards Branch*

The responsibilities of this branch include the audit of the Province's financial statements, the preparation of the Annual Report, and the development and maintenance of auditing policies and standards.

### *EDP Branch*

This branch's main responsibilities are EDP audits, including the provision of technical support and training to other branches.

### *Special Assignments Branch*

This branch's main responsibilities are Office-initiated audits and reviews of Government-wide issues and systems, and special assignments requested by the Standing Committee on Public Accounts and by Ministers.

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### **Advisory Committee**

An external Advisory Committee has been established by the Provincial Auditor to strengthen the function of the Office. The Committee's terms of reference include assessment of the Annual Report and other publicly issued reports, periodic review of the Office's audit approach, analysis of the Office profile, and advice relating to sensitive audit issues. The Committee meets once or twice a year on the call of the Auditor.

The Committee comprises five members, all of whom combine the independence of current association with the private sector with extensive knowledge of the parliamentary system and the function of Government. At the present time, the members of the Advisory Committee are:

|                  |   |
|------------------|---|
| Rendall Dick :   | former Deputy Attorney General and Deputy Treasurer of Ontario;   |
| Patrick Reid :   | former Labour/Liberal MPP; past Chairman of the Public Accounts Committee;                                |
| Jack Stokes :    | former New Democratic MPP and Speaker of the Legislative Assembly;  |
| George Taylor :  | former Conservative MPP and member of the Public Accounts Committee; former Solicitor General of Ontario; |
| Adam Zimmerman : | Chairman, MacMillan Bloedel; Chairman and Chief Executive Officer, Noranda Forest Inc.                    |

## Office of the Provincial Auditor

### Personnel

Office staff at August 31, 1989 were as follows:

|                                      |                   |
|--------------------------------------|-------------------|
| Executive and Directors              | 12                |
| Managers                             | 15                |
| Supervisors                          | 20                |
| Auditors                             | 15                |
| Auditor Trainees                     | 37                |
| Human Resources and Support Services | <u>10</u>         |
| <b>Total Staff</b>                   | <b><u>109</u></b> |

### 5.10

#### Office Expenditure

The following is the 1989 audited Statement of Expenditure for the Office.

#### Office of the Provincial Auditor Statement of Expenditure year ended March 31, 1989

|   | 1989             |                  | 1988             |                  |
|---|------------------|------------------|------------------|------------------|
|   | Actual<br>\$     | Estimates<br>\$  | Actual<br>\$     | Estimates<br>\$  |
| Salaries and wages  | 4,318,294        | 4,730,000        | 4,273,474        | 4,365,700        |
| Employee benefits   | 561,052          | 725,000          | 611,978          | 790,500          |
| Transportation and communication                              | 240,226          | 233,000          | 226,220          | 219,000          |
| Services  | 1,035,720        | 1,084,000        | 952,912          | 1,011,000        |
| Supplies and equipment  | 123,524          | 105,000          | 201,406          | 178,000          |
| Transfer payment - Canadian Comprehensive Auditing Foundation | <u>46,000</u>    | <u>46,000</u>    | <u>44,100</u>    | <u>44,100</u>    |
|   | 6,324,816        | 6,923,000        | 6,310,090        | 6,608,300        |
| Provincial Auditor's salary                                   | <u>106,602</u>   | <u>95,200</u>    | <u>96,511</u>    | <u>91,500</u>    |
|   | <u>6,431,418</u> | <u>7,018,200</u> | <u>6,406,601</u> | <u>6,699,800</u> |

## Canadian Conference of Legislative Auditors

### Notes:

#### 1. *Accounting Policy*

The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

#### 2. *Estimates*

The estimates shown above are those voted and approved, including supplementary estimates where applicable.

#### 3. *Comparative Figures*

The comparative figures for the year ended March 31, 1988 were reported on by another firm of chartered accountants.

### Auditors' Report

TO THE BOARD OF INTERNAL ECONOMY  
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1989. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1989 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario  
July 7, 1989

ALLEN, MILES, FOX & JOHNSTON  
CHARTERED ACCOUNTANTS

### 5.11 Canadian Conference of Legislative Auditors

The seventeenth annual meeting of the Canadian Conference of Legislative Auditors was held in Edmonton from July 9 to 12, 1989. This gathering, bringing together legislative auditors from Canada and the provinces, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

This year's conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, covered such topics as:

- accounting issues relating to the reporting entity, pensions and financial statement presentation for governments;
- audit of the privatization process; and
- materiality and confidence levels for financial statement audits.



CHAPTER

6

THE STANDING COMMITTEE  
ON PUBLIC ACCOUNTS



## CHAPTER 6

### THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

#### 6.1

##### **Appointment and Composition of the Committee**

The Standing Orders of the Legislative Assembly provide for the appointment of an all-party Standing Committee on Public Accounts for each Session of Parliament.

The membership of the Committee is approximately proportional to the respective party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

The Standing Committee on Public Accounts, appointed on November 23, 1987, continued until the First Session of the Thirty-Fourth Parliament was prorogued on March 2, 1989. A new Committee was appointed on May 8, 1989 soon after the commencement of the Second Session of the Thirty-Fourth Parliament. Membership on the Committee consists of six Liberals, three New Democrats and two Progressive Conservatives for a total of 11 members. The Chairman of the Committee is a member of the Official Opposition Party (New Democratic).

#### 6.2

##### **Role of the Committee**

The Committee is empowered to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts. These documents stand permanently referred to the Committee as soon as they are tabled. The Committee also reviews matters referred to it by a resolution of the Assembly.

In essence, the role of the Committee, on behalf of Parliament and ultimately the public, is to hold the Cabinet and Government bureaucracy accountable for their administration.

In order to fulfill this role, the Committee examines, assesses and reports to the Legislature on a number of issues, including the economy and efficiency of operations; the effectiveness of programs in achieving objectives; controls over assets, expenditures and the assessment and collection of revenues; and, the reliability and appropriateness of information in the Public Accounts.

The Committee also has the responsibility to annually review the Estimates of the Office of the Provincial Auditor.

##### *Provincial Auditor's Role in the Process*

The Provincial Auditor assists the Committee by presenting information that is relevant to the preceding issues. This enables the members to deal intelligently and constructively with them.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

## The Standing Committee on Public Accounts

### 6.3 Committee Procedures and Operations

#### General

The Committee meets every Thursday morning when the Legislature is in session. For the past several years it has also met more frequently during the summer and winter when the Legislature has not been in session. All meetings are open to the public with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports.

Most Committee meetings deal with those aspects of the operations of Government ministries and Crown agencies related to assessing the legality and prudence of Government expenditures and the establishment of proper administrative policies and procedures.

At meetings dealing with ministry operations, a Deputy Minister, usually accompanied by senior ministry officials, answers questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, Ministers rarely attend. When the Committee is reviewing Crown agencies, the Chief Executive Officer, and at times, the Chairman of the Board attend the meetings. They are usually accompanied by senior agency staff.

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#### Meetings Held

From October 1988 to August 1989 the Committee held 19 public meetings, which included reviews of various sections of the 1987 and 1988 Auditor's Reports as well as a review of the 1988-89 Estimates of the Office of the Provincial Auditor. Additionally, a number of in camera meetings were held, mainly to finalize Committee Reports to the Legislature.

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#### Motions Passed at Meetings

##### *Consulting Contract - Ministry of Housing*

On June 29, 1989, the Committee passed a motion requesting the Provincial Auditor to immediately conduct an audit of the process used to award a Ministry of Housing contract to a particular consultant.

##### *Tabling of Audit Report on Ontario Place Corporation Special Assignment*

On July 6, 1989, the Committee passed a motion effectively requesting the Provincial Auditor to table the Ontario Place Corporation audit report with the Committee at the same time as it is submitted to the Minister of Tourism and Recreation.

## Other Committee Activities

### Innovation in Committee Procedures and Operations

Following a review of its counterpart operations in Ottawa and Washington, D.C. in March 1988, the Committee adopted some procedural approaches to its work which are intended to increase its effectiveness and strengthen the accountability cycle. Major innovations include:

- in-depth briefings and preparation;
- more frequent reports to the Legislature; and
- increased follow-up of Committee recommendations.

In addition, the Committee has adopted a more hands-on approach in its examinations and investigations. The Committee has visited the Hamilton, Thunder Bay and North Bay Psychiatric Hospitals, the Queen Street Mental Health Centre, and firefighting facilities in Thunder Bay, North Bay and Dryden, in connection with report sections in the Provincial Auditor's 1987 and 1988 Annual Reports.

#### 6.4

#### Other Committee Activities

### Canadian Council of Public Accounts Committees

The eleventh annual meeting of the Council was held in Edmonton, from July 9 to 12, 1989. These annual meetings, normally attended by Public Accounts Committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information.

The meeting included a round table discussion of each delegation's Public Accounts Committee activities during the past year, presentation of case studies, and a joint session with the Conference of Legislative Auditors.

#### 6.5

#### Reports of the Committee

### General

As noted above, the Committee has adopted the practice of more frequent reporting to the Legislature. It is felt that this approach has the following advantages: it allows reports to be finalized while still fresh in the minds of Committee members; the Committee's recommendations on actions to be taken by the ministry/agency can be monitored and followed up on a more timely basis; and, by making its work public on an issue-by-issue basis, the enhanced media coverage increases the public awareness of the Committee's role in the accountability process.

Each report is termed an Interim Report and consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of comments and recommendations. The Committee also issues additional Reports on an annual or biennial basis which include summaries of previously issued Interim Reports. All Reports are available through the Clerk of the Committee, thus affording public access to full details of Committee deliberations.

## The Standing Committee on Public Accounts

### Completed Reports

The Committee issued eight Interim Reports and a biennial Report between May 1988 and July 1989. The Reports related to various sections of our 1987 and 1988 Annual Reports, and contained recommendations related to the following:

- . Ministry of Health
  - Procedures and controls in the Ontario Health Insurance Program (OHIP)
  - Staffing, facilities and operations of psychiatric hospitals
- . Ministry of the Environment
  - Pollution enforcement procedures
  - Administrative practices
- . Liquor Control Board of Ontario
  - Inventory management, staffing and Durham warehouse operations
- . Ontario Housing Corporation
  - Cost overruns and other matters
- . Ministry Internal Audit Operations
  - Planning, audit practices, staffing
- . Ministry of Correctional Services
  - Monitoring of costs, staffing and program effectiveness
- . Ministry of Northern Development and Mines
  - Geological project controls and the Mining Recorder function
- . Ministry of Skills Development
  - FUTURES (Youth Opportunities) Program funding, program delivery and effectiveness
- . Ministry of the Solicitor General
  - OPP Telecommunications Project and staffing of coroner posts
- . The St. Lawrence Parks Commission
  - Potential savings in administration costs
- . Ministry of Revenue
  - Tax collection by Motor Fuels and Tobacco Tax Branch
- . Ministry of Community and Social Services
  - General Welfare Assistance Program monitoring controls
- . Ministry of Natural Resources
  - Prevention, detection and control of forest fires

The Clerk of the Committee is responsible for following up the actions of the ministries/agencies on the Committee's recommendations. Our Office liaises with the Clerk to ascertain the status of the recommendations, and would bring any significant matters arising therefrom to the attention of the Legislature in our Annual Reports.

## EXHIBITS

### **Summary of Audits and Reviews Performed:**

1. - **Government-wide Matters and Special Reviews.**
2. - **Ministry Audits.**
3. - **Agency of the Crown Audits, year ended March 31, 1989.**
4. - **Crown Controlled Corporations, year ended March 31, 1989.**
5. **Management Board Orders - Amounts Authorized and Expended Thereunder, year ended March 31, 1989.**
6. **Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.**



## EXHIBIT 1

### Government-wide Matters and Special Reviews

#### *GOVERNMENT-WIDE MATTERS*

- \* . Accountability for Transfer Payments
- \* . Government Consulting Services Expenditures
  - Colleges and Universities
  - Community and Social Services
  - Education
  - Environment
  - Government Services
  - Housing
  - Natural Resources
  - Revenue
  - Transportation
- \* . Government Overtime Costs
  - Correctional Services
  - Health
  - Natural Resources
  - Solicitor General
  - Transportation
- \* . Government Travel Expenses
  - Agriculture and Food
  - Attorney General
  - Citizenship
  - Community and Social Services
  - Correctional Services
  - Culture and Communications
  - Environment
  - Labour
  - Natural Resources
  - Revenue
  - Solicitor General
  - Transportation

#### *REVIEW FOR MINISTER OF THE CROWN*

- . Industry, Trade and Technology - IDEA Corporation

#### *INSPECTION AUDITS*

- \* . Guelph University, Ministry of Colleges and Universities
- \* . York-Finch Hospital, Ministry of Health

\*These matters appear in Chapter 2 of this Report.

## EXHIBIT 2

### Ministry Audits

- Attorney General*
  - \* . Administration of Justice Activity
    - District Courts
- Community and Social Services*
  - . Children's Services Activity
  - \* - Children's Aid Societies
  - \* - Child Care
- Correctional Services*
  - \* . Community Services and Ontario Board of Parole Activities
    - Probation and Parole Services
- Government Services*
  - . Realty Services Program - Program Delivery and Capital Expenditures Activities
  - \* - Provision of Leased Accommodation
  - \* - Repairs, Operation and Maintenance of Government - owned Accommodation
- Health*
  - \* . Emergency Health Services Activity
- Management Board of Cabinet*
  - \* . Human Resources Secretariat
  - . Management Board Secretariat
- Natural Resources*
  - \* . Fisheries Management Activity
  - \* . Wildlife Management Activity
- Revenue*
  - \* . Retail Sales Tax
  - . Revenue Computer Centre, EDP Audit
- Transportation*
  - . Safety and Regulation Program
  - \* - Driver Examination, Inspection and Enforcement
  - \* - Driver and Vehicle Registration, EDP Audit

\*These matters appear in Chapter 3 of this Report.

## EXHIBIT 3

**Agency of the Crown  
Audits**

year ended March 31, 1989

*(i) Agencies whose accounts are audited by the Provincial Auditor.*

- \* Accountant of the Supreme Court of Ontario, The  
Agricultural Rehabilitation and Development  
Directorate of Ontario  
Alcoholism and Drug Addiction Research Foundation
- \* Algonquin Forestry Authority  
Centennial Centre of Science and Technology, The  
Commission on Election Finances
- \* Crop Insurance Commission of Ontario, The
- \* Eastern Ontario Development Corporation  
Egg Fund Board (December 31)  
Election Act, 1984, The, - Election Fees and Expenses  
Environmental Compensation Corporation
- \* Farm Income Stabilization Commission of Ontario  
Fund for Milk and Cream Producers, The, -  
The Ontario Farm Products Marketing Commission  
Grain Financial Protection Board  
IDEA Information Technology Fund Inc.  
IDEA Innovation Fund Inc.  
IDEA Research Investment Fund Inc.
- \* Innovation Ontario Corporation  
Legal Aid Fund, Law Society of Upper Canada, The
- \* Liquor Control Board of Ontario  
Liquor Licence Board of Ontario  
Live Stock Financial Protection Board, The  
McMichael Canadian Collection, The
- \* Niagara Parks Commission, The (October 31)
- \* Northern Ontario Development Corporation  
Northern Ontario Heritage Fund Corporation  
Office of the Assembly  
Office of the Information and Privacy Commissioner  
Office of the Official Guardian  
Office of the Ombudsman  
Ontario Agricultural Museum  
Ontario Cancer Treatment and Research Foundation, The
- \* Ontario Development Corporation  
Ontario Educational Communications Authority, The  
Ontario Film Development Corporation, The  
Ontario Food Terminal Board  
Ontario Heritage Foundation, The
- \* Ontario Housing Corporation (December 31)  
Ontario Industrial Training Institute
- \* Ontario International Corporation
- \* Ontario Junior Farmer Establishment Loan Corporation, The
- \* Ontario Lottery Corporation
- \* Ontario Mortgage Corporation
- \* Ontario Municipal Improvement Corporation, The
- \* Ontario Northland Transportation Commission (December 31)
- \* Ontario Place Corporation  
Ontario Racing Commission

### Exhibit 3

- 
- Ontario Stock Yards Board (June 30)
  - Ontario Telephone Development Corporation, The
  - Ontario Training Corporation
  - \* Ontario Waste Management Corporation
  - Owen Sound Transportation Company Limited, The  
(December 31)
  - Pension Commission of Ontario
  - Potato Financial Protection Board
  - Processing-Vegetable Financial Protection Board
  - Province of Ontario Council for the Arts
  - \* Provincial Judges Benefits Fund
  - Public Complaints Commissioner
  - \* Public Service Superannuation Fund
  - \* Public Trustee of the Province of Ontario, The
  - Rent Review Hearings Board
  - Soldiers' Aid Commission
  - St. Clair Parkway Commission, The (December 31)
  - St. Lawrence Parks Commission, The
  - Star Transfer Limited (December 31)
  - \* Superannuation Adjustment Fund
  - Tobacco Producers' Assistance Fund

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(ii) *Agencies whose accounts are audited by another auditor under the direction of the Provincial Auditor.*

- Board of Community Mental Health Clinic, Guelph
- Clarke Institute of Psychiatry
- Ontario Cancer Institute, The
- Ontario Mental Health Foundation
- \* Teachers' Superannuation Fund (December 31)
- \* Toronto Area Transit Operating Authority
- \* Workers' Compensation Board (December 31)

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NOTE: Dates in parentheses indicate fiscal periods ending on a date other than March 31.

- \* Audited financial statements reproduced in 1988-89 Public Accounts, the majority appearing in Volume 2.

## EXHIBIT 4

**Crown Controlled  
Corporations**  
year ended March 31, 1989

*Corporations whose accounts are audited by an auditor other than the  
Provincial Auditor, with full access by the Provincial Auditor to audit reports,  
working papers and other related documents.*

- Board of Funeral Services
- Board of Governors of The Ontario Institute for Studies  
in Education, The
- Board of Ophthalmic Dispensers
- Board of Radiological Technicians
- † Corporation of the Improvement District of Cameron
- Corporation of the Improvement District of Gauthier
- Corporation of the Improvement District of Kingsford
- Corporation of the Improvement District of Matachewan
- Governing Board of Dental Technicians
- Governing Board of Denture Therapists
- † Metropolitan Toronto Convention Centre Corporation
- Moosonee Development Area Board
- Ontario Board of Examiners in Psychology
- \* Ontario Centre for Advanced Manufacturing
- \* Ontario Centre for Resource Machinery Technology
- † Ontario Cream Producers' Marketing Board
- † \* Ontario Energy Corporation
- Ontario Historical Studies Series
- \* Ontario Hydro
- Ontario Milk Marketing Board, The
- † Ontario Municipal Employees Retirement Board
- Ontario Share and Deposit Insurance Corporation
- Ontario Transportation Development Corporation, The
- Ontario Trillium Foundation
- † Ortech Corporation
- † Ottawa Congress Centre
- Royal Ontario Museum, The
- Science North
- \* Stadium Corporation of Ontario Limited
- Thunder Bay Ski Jumps Limited
- † \* Urban Transportation Development Corporation Limited

\* Audited financial statements reproduced in 1988-89 Public Accounts, the majority appearing  
in Volume 2.

† Audit reports and working paper files reviewed by the Office during 1989.

## EXHIBIT 5

**Management Board Orders**

Amounts Authorized and  
Expended Thereunder  
year ended March 31, 1989

| Ministry                             | Date of Order | Authorized         | Expended           |
|--------------------------------------|---------------|--------------------|--------------------|
|                                      |               | \$                 | \$                 |
| Agriculture and Food                 | Feb. 13, 1989 | 2,304,900          | 910,295            |
|                                      | Mar. 7, 1989  | 3,870,900          | 3,323,451          |
|                                      | Apr. 11, 1989 | <u>7,151,100</u>   | <u>6,407,316</u>   |
|                                      |               | <u>13,326,900</u>  | <u>10,641,062</u>  |
| Attorney General                     | Jan. 31, 1989 | 6,850,200          | 6,850,200          |
|                                      | Mar. 2, 1989  | 8,780,500          | 7,812,860          |
|                                      | Mar. 21, 1989 | <u>4,285,700</u>   | <u>3,437,445</u>   |
|                                      |               | <u>19,916,400</u>  | <u>18,100,505</u>  |
| Citizenship                          | Mar. 7, 1989  | 475,700            | 475,700            |
|                                      | Apr. 4, 1989  | <u>3,361,200</u>   | <u>3,019,097</u>   |
|                                      |               | <u>3,836,900</u>   | <u>3,494,797</u>   |
| Colleges and Universities            | Jan. 17, 1989 | 171,900            | 39,718             |
|                                      | Mar. 7, 1989  | 477,100            | 172,226            |
|                                      | Mar. 29, 1989 | 108,800,000        | 108,556,806        |
|                                      | Apr. 4, 1989  | <u>2,286,400</u>   | <u>1,805,757</u>   |
|                                      |               | <u>111,735,400</u> | <u>110,574,507</u> |
| Community and<br>Social Services     | Mar. 7, 1989  | 63,546,600         | 56,047,064         |
|                                      | Apr. 4, 1989  | <u>12,447,400</u>  | <u>11,206,108</u>  |
|                                      |               | <u>75,994,000</u>  | <u>67,253,172</u>  |
| Consumer and<br>Commercial Relations | Mar. 7, 1989  | 2,940,700          | 2,395,344          |
|                                      | Apr. 19, 1989 | <u>199,000</u>     | <u>193,116</u>     |
|                                      |               | <u>3,139,700</u>   | <u>2,588,460</u>   |
| Correctional Services                | Mar. 2, and   |                    |                    |
|                                      | Mar. 21, 1989 | <u>17,645,100</u>  | <u>17,523,293</u>  |

## Management Board Orders

| Ministry                       | Date of Order | Authorized        | Expended          |
|--------------------------------|---------------|-------------------|-------------------|
|                                |               | \$                | \$                |
| Culture and<br>Communications  | Jan. 17, 1989 | 242,400           | 242,400           |
|                                | Feb. 21, 1989 | 548,000           | 506,721           |
|                                | Mar. 2, 1989  | 164,700           | 124,826           |
|                                | Mar. 7, 1989  | 1,751,100         | 1,737,956         |
|                                | Mar. 21, 1989 | 2,080,300         | 2,009,032         |
|                                | Apr. 4, 1989  | <u>680,000</u>    | <u>665,992</u>    |
|                                |               | <u>5,466,500</u>  | <u>5,286,927</u>  |
| <hr/>                          |               |                   |                   |
| Office for Disabled<br>Persons | Mar. 7, 1989  | <u>7,600</u>      | <u>-</u>          |
| <hr/>                          |               |                   |                   |
| Education                      | Jan. 24, 1989 | 818,900           | 818,900           |
|                                | Mar. 2, 1989  | 2,249,000         | 2,201,313         |
|                                | Mar. 21, 1989 | 2,337,100         | 1,843,337         |
|                                | Apr. 4, 1989  | <u>630,000</u>    | <u>628,726</u>    |
|                                |               | <u>6,035,000</u>  | <u>5,492,276</u>  |
| <hr/>                          |               |                   |                   |
| Energy                         | Jan. 24, 1989 | 1,567,900         | 1,332,964         |
|                                | Mar. 7, 1989  | 678,000           | 590,834           |
|                                | Mar. 21, 1989 | <u>275,000</u>    | <u>266,748</u>    |
|                                |               | <u>2,520,900</u>  | <u>2,190,546</u>  |
| <hr/>                          |               |                   |                   |
| Environment                    | Jan. 17, 1989 | 1,807,000         | 1,807,000         |
|                                | Mar. 21, 1989 | 4,388,400         | 4,145,111         |
|                                | Apr. 4, 1989  | <u>2,291,700</u>  | <u>2,290,384</u>  |
|                                |               | <u>8,487,100</u>  | <u>8,242,495</u>  |
| <hr/>                          |               |                   |                   |
| Financial Institutions         | Mar. 7, 1989  | 1,557,500         | 1,543,778         |
|                                | Apr. 19, 1989 | <u>305,000</u>    | <u>301,224</u>    |
|                                |               | <u>1,862,500</u>  | <u>1,845,002</u>  |
| <hr/>                          |               |                   |                   |
| Government Services            | Mar. 21, 1989 | <u>8,663,700</u>  | <u>7,450,445</u>  |
| <hr/>                          |               |                   |                   |
| Health                         | Mar. 2, 1989  | 774,500           | 596,279           |
|                                | Mar. 7, 1989  | 2,300,100         | 2,298,029         |
|                                | Mar. 21, 1989 | 40,471,600        | 40,319,286        |
|                                | Apr. 4, 1989  | 11,785,100        | 9,716,036         |
|                                | Apr. 18, 1989 | <u>10,470,700</u> | <u>9,128,629</u>  |
|                                |               | <u>65,802,000</u> | <u>62,058,259</u> |

## Exhibit 5

| Ministry                             | Date of Order | Authorized         | Expended           |
|--------------------------------------|---------------|--------------------|--------------------|
|                                      |               | \$                 | \$                 |
| Housing                              | Apr. 11, 1989 | <u>2,902,600</u>   | <u>2,151,128</u>   |
| Industry, Trade and<br>Technology    | Mar. 7, 1989  | 3,936,800          | 3,629,569          |
|                                      | Apr. 11, 1989 | <u>745,000</u>     | <u>726,858</u>     |
|                                      |               | <u>4,681,800</u>   | <u>4,356,427</u>   |
| Intergovernmental Affairs            | Feb. 13, 1989 | 305,700            | 153,009            |
|                                      | Mar. 2, 1989  | <u>780,000</u>     | <u>638,199</u>     |
|                                      |               | <u>1,085,700</u>   | <u>791,208</u>     |
| Labour                               | Jan. 24, 1989 | 555,000            | 555,000            |
|                                      | Jan. 31, 1989 | 248,900            | 248,175            |
|                                      | Mar. 7, 1989  | 2,735,100          | 2,192,380          |
|                                      | Mar. 21, 1989 | <u>364,600</u>     | <u>359,674</u>     |
|                                      |               | <u>3,903,600</u>   | <u>3,355,229</u>   |
| Office of the Lieutenant<br>Governor | Mar. 21, 1989 | <u>25,400</u>      | <u>25,295</u>      |
| Management Board<br>of Cabinet       | Jan. 17, 1989 | 1,500,000          | 1,484,578          |
|                                      | Feb. 21, 1989 | 138,000            | 137,844            |
|                                      | Apr. 4, 1989  | <u>2,204,700</u>   | <u>1,527,912</u>   |
|                                      |               | <u>3,842,700</u>   | <u>3,150,334</u>   |
| Municipal Affairs                    | Mar. 29, 1989 | 410,950,000        | 410,700,287        |
|                                      | Apr. 11, 1989 | <u>764,800</u>     | <u>642,971</u>     |
|                                      |               | <u>411,714,800</u> | <u>411,343,258</u> |
| Natural Resources                    | Aug. 9, 1988  | 15,000,000         | 15,000,000         |
|                                      | Aug. 23, 1988 | 20,000,000         | 20,000,000         |
|                                      | Oct. 25, 1988 | 2,000,000          | 2,000,000          |
|                                      | Mar. 7, 1989  | 1,868,100          | 1,801,138          |
|                                      | Apr. 4, 1989  | <u>12,341,900</u>  | <u>11,630,036</u>  |
|                                      |               | <u>51,210,000</u>  | <u>50,431,174</u>  |

## Management Board Orders

| Ministry  | Date of Order | Authorized         | Expended           |
|---|---------------|--------------------|--------------------|
|   |               | \$                 | \$                 |
| Northern Development<br>and Mines                 | Apr. 4, 1989  | <u>146,500</u>     | <u>96,800</u>      |
| Office of the Premier                             | Mar. 7, 1989  | <u>120,000</u>     | <u>66,619</u>      |
| Revenue   | Feb. 13, 1989 | 269,200            | 85,169             |
|   | Mar. 2, 1989  | 7,113,600          | 6,746,695          |
|   | Mar. 21, 1989 | <u>766,100</u>     | <u>650,888</u>     |
|   |               | <u>8,148,900</u>   | <u>7,482,752</u>   |
| Office Responsible for<br>Senior Citizens Affairs | Apr. 11, 1989 | <u>51,700</u>      | <u>18,472</u>      |
| Skills Development                                | Mar. 21, 1989 | <u>376,000</u>     | <u>247,404</u>     |
| Solicitor General                                 | Jan. 31, 1989 | 900,000            | 900,000            |
|   | Mar. 2, 1989  | 20,128,400         | 17,348,056         |
|   | Mar. 21, 1989 | <u>5,348,100</u>   | <u>5,285,356</u>   |
|   |               | <u>26,376,500</u>  | <u>23,533,412</u>  |
| Tourism and Recreation                            | Mar. 7, 1989  | 940,000            | 940,000            |
|   | Mar. 21, 1989 | <u>1,171,700</u>   | <u>1,171,162</u>   |
|   |               | <u>2,111,700</u>   | <u>2,111,162</u>   |
| Transportation                                    | Mar. 21, 1989 | 15,655,500         | 15,641,717         |
|   | Apr. 4, 1989  | <u>10,703,300</u>  | <u>10,524,818</u>  |
|   |               | <u>26,358,800</u>  | <u>26,166,535</u>  |
| Treasury and Economics                            | Mar. 21, 1989 | <u>1,340,800</u>   | <u>992,397</u>     |
| Office Responsible for<br>Women's Issues          | Apr. 11, 1989 | <u>8,300</u>       | <u>1,236</u>       |
| <b>Total Management Board Orders</b>              |               | <u>888,845,500</u> | <u>859,062,588</u> |

## EXHIBIT 6

### Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports

(See Note)

| <u>Report</u>   | <u>Section</u> | <u>Description/Status</u>  |
|---|----------------|--|
| <b><u>RESOLVED AS AT DATE OF PREPARATION OF<br/>1989 AUDITOR'S REPORT</u></b> |                |  |
| <i>MINISTRIES</i>   |                |  |
| <b>Ministry of Agriculture and Food</b>                                       |                |  |
| 1987  | 4.2            | Good administrative procedures but inadequate effectiveness indicators, Farm Interest Rate Reduction Program.<br>- In process of implementation.   |
| <b>Ministry of Consumer and Commercial Relations</b>                          |                |  |
| 1988  | 3.4            | Improved security needed, Vital Statistics Information System.<br>- Implemented.   |
| <b>Ministry of Correctional Services</b>                                      |                |  |
| 1987  | 4.5            | Improved administration required, Institutional Services Activity.<br>- In process of implementation.  |
| <b>Ministry of Education</b>  |                |  |
| 1983  | 3.7            | Deficiencies in accountability process re General Legislative Grants.<br>- In process of implementation. Is being addressed through the accountability framework initiative outlined in Section 2.2. |
| 1987  | 4.6            | Better effectiveness indicators needed, Blind, Deaf and Demonstration Schools Activity.<br>- Partially implemented.  |
| 1988  | 3.6            | Development and implementation concerns, Computers in Education Initiative.<br>- In process of implementation.   |
| <b>Ministry of Government Services</b>  |                |  |
| 1985  | 3.12           | More economical and efficient use of accommodation warranted.<br>- See Section 3.7 of this Report for the current status of the implementation of corrective actions.                                |

## Status of Previous Annual Report Recommendations

| <u>Report</u>   | <u>Section</u> | <u>Description/Status</u>  |
|---|----------------|--|
| 1988  | 3.8            | Weak management practices, Computer and Telecommunication Services Program.<br>- In process of implementation. |
| <b>Ministry of Health</b>                               |                |  |
| 1987  | 4.9            | Problems in mental health care.<br>- In process of implementation.   |
| <b>Ministry of Revenue</b>                              |                |  |
| 1988  | 3.12           | Concerns over tax collection, Motor Fuels and Tobacco Tax Branch.<br>- In process of implementation.           |
| <i>CROWN AGENCIES</i>                                   |                |  |
| <b>Liquor Control Board of Ontario</b>                  |                |  |
| 1988  | 4.2            | Operational improvements required.<br>- Substantially implemented.   |
| <b>The Ontario Educational Communications Authority</b> |                |  |
| 1988  | 4.4            | Non-compliance with purchasing and project evaluation policies.<br>- Substantially implemented.                |
| <b>The Public Trustee of the Province of Ontario</b>    |                |  |
| 1988  | 4.6            | Administrative improvements required.<br>- In process of implementation.                                       |
| <b><u>TO BE REVIEWED IN SUBSEQUENT YEARS*</u></b>       |                |  |
| <i>GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS</i>      |                |  |
| 1988  | 2.4            | Observations on government advertising and communications expenditures.  |
| <i>MINISTRIES</i>                                       |                |  |
| <b>Ministry of Community and Social Services</b>        |                |  |
| 1988  | 3.3            | Unsatisfactory monitoring procedures, General Welfare Assistance Program.                                      |

## Exhibit 6

| <u>Report</u>                                      | <u>Section</u> | <u>Description/Status</u>   |
|--|----------------|---|
| <b>Ministry of Culture and Communications</b>      |                |   |
| 1988   | 3.5            | Better monitoring required, Community Facilities Improvement Program.           |
| <b>Ministry of the Environment</b>                 |                |   |
| 1988   | 3.7            | Weak controls over water and sewage treatment plants.                           |
| <b>Ministry of Health</b>                          |                |   |
| 1987   | 4.8            | Weak procedures and controls, Health Insurance Program.                         |
| 1988   | 3.9            | Concerns over hospital funding and performance monitoring.                      |
| <b>Ministry of Municipal Affairs</b>               |                |   |
| 1988   | 3.10           | Inflexible allocation formulae warrant reassessment, Unconditional Grants.      |
| <b>Ministry of Natural Resources</b>               |                |   |
| 1988   | 3.11           | Improved cost controls and resources monitoring required, Forest Fire fighting. |
| <b>Ministry of Transportation</b>                  |                |   |
| 1988   | 3.13           | Improved efficiency required, Design Activity.                                  |
| 1988   | 3.14           | Opportunities for cost reductions, Municipal Roads Program.                     |
| <i>CROWN AGENCIES</i>                              |                |   |
| <b>The McMichael Canadian Collection</b>           |                |   |
| 1988   | 4.3            | Acquisitions, safeguards and other matters.                                     |
| <b>Ontario Northland Transportation Commission</b> |                |   |
| 1988   | 4.5            | Potential for cost savings.   |

## Status of Previous Annual Report Recommendations

| <u>Report</u> | <u>Section</u> | <u>Description/Status</u> |
|---------------|----------------|---------------------------|
|---------------|----------------|---------------------------|

### The Royal Ontario Museum

|      |     |  |
|------|-----|--|
| 1988 | 4.7 | Improved controls and data security recommended. |
|------|-----|--|

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NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were:

- (a) considered unresolved per Exhibit 6 of the 1988 Auditor's Report.
- (b) contained in the body of the 1988 Auditor's Report.

\* The status of recommendations will normally be determined during the next cyclical audit of the areas involved. However, where possible, we endeavour to ascertain the status earlier.









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